

MISSION IMPOSSIBLE?

Introduction and transfer of employee-oriented CSR in multinational SMEs

Johan de Jong

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MISSION IMPOSSIBLE?

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In memory of my father

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Some seven years ago, I participated in a program ‘Take a Chance’ sponsored by my employer to find out what I would like to do during the remainder of my career. Until then, I was fully occupied with teaching and I had the impression this had become an insufficient stimulus for stimulating the brain. During long conversations with my fellow participants – Marieke ter Braak, Irma Haagsma, Anja Huisman, Anneke Janssen, Desiree Klumpenaar, Joost Koning, Elke Mellema, Ada Nauta, Wim Velema, Nina de Vries en Hester Vrijburg – I found out that next to teaching and supervising students’ graduation projects, I would like to do research of my own. Thank you all for that. The outcome has been that I started this PhD trajectory and I want to thank with all my heart the Hanze University of Applied Sciences for making this possible.

It turned out to be a thrilling and stimulating journey but like many other PhD students I experienced it to be as well a very demanding and daunting task with its peaks and troughs. As the Germans say I was at times *himmelhoch jauchzend* and at other times *zum Tode betrübt*. I could not have completed this journey without the help of a lot of people.

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Groningen, March 2014

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LIST OF ABBREVIATIONS

AMO	Abilities, Motivation and Opportunities framework
CEE	Central and Eastern European
CEO	Chief Executive Officer
CME	Coordinated Market Economy
CNV	Christelijk Nationaal Vakverbond (Christian National Trade Union)
CSR	Corporate Social Responsibility
EFA	European Framework Agreement
EMU	Economic and Monetary Union
EU	European Union
FNV	Federatie Nederlandse Vakbeweging (Federation Dutch Trade Union)
HRM	Human Resource Management
HR practices	Human Resource practices
IFA	International Framework Agreement
KSAs	Knowledge, Skills and Abilities
LME	Liberal Market Economy
MNE	Multinational Enterprise
NGO	Non-Governmental Organisation
PCA	Principal Component Analysis
RBV	Resource-Based View
SHRM	Strategic Human Resource Management
SME	Small and Medium-Sized Enterprise
VRIO	Valuable, Rare, Inimitable and Organisation-Specific

CHAPTER 1

INTRODUCTION

1.1 PROLOGUE

On October 17, 2010, a spontaneous walkout of truck drivers occurred at a Dutch multinational transport company in protest of sudden, unexpected, and new redundancies following earlier redundancies in the previous year. Employees accused management of maximising profit at their expense by shifting work to the company's Hungarian subsidiary. In this subsidiary, significant numbers of new Hungarian truck drivers were hired while, concurrently, Dutch drivers were laid off which the Dutch trade union confederation, FNV, considered as representing 'social dumping' (Van der Veen, 2010). Though compulsory redundancies were eventually averted by the union, management's decision to reserve international freight for less expensive Hungarian lorry drivers was retained (Transport Online, 2010). From an employee viewpoint, this incident emphasised significant negative consequences of globalisation and regionalisation, specifically, rising employment insecurity and diminished employee power.

The relationship between firms and employees is generally studied from one of two angles: industrial relations and human resource management. From both perspectives, this relationship is determined in terms of power and instrumentality, albeit that each addresses a different aspect of power. From the HRM perspective, employees retain power to the extent that they possess knowledge, skills, and abilities (KSAs) that the firm cannot do without (see e.g., Legge, 1995; Lepak *et al.*, 2007). If, as in the anecdote above, their KSAs are apparently interchangeable with those of more inexpensive employees, then the firm – motivated by an instrumental perception of employees – will replace them with a lower-cost group of employees. From the industrial relations perspective, employees have power to the extent that they are supported by strong trade unions, non-union groups such as non-governmental organisations (NGOs), and/or strict governmental legislation and regulations (see, e.g., Heery *et al.*, 2008; Legge, 1995; Riisgaard, 2005; Tros *et al.*, 2004). In the previously mentioned anecdote, the union had sufficient power to

avert immediate compulsory redundancies but did not succeed in preserving international employment opportunities for the Dutch lorry drivers involved.

This begs the question whether employers can be only extrinsically motivated – for instance, through union power – to refrain from deterioration of labour conditions and employment security in response to the intensified competition due to globalisation and regionalisation. Many companies tend to respond to sharper competition by reducing their costs with employing instruments such as global sourcing. In that framework, it is easy to consider employees merely as input factors whose costs must be minimised in order to remain competitive. However, Kroon and Paauwe (2013) assert that even marginally profitable firms do not automatically use precarious employment practices at the expense of their employees.

Within this thesis, I investigate the role of value systems in the design and implementation of employee relations arrangements. Employers' value systems comprise a mixture of self-regarding and other-regarding values. Self-regarding values are related to employee power: the greater the employee power, the more incentives employers must have to take into consideration the needs and interests of employees. In contrast, other-regarding values represent an intrinsic motivation to take into consideration the needs and interests of employees based on the conviction that employees are legitimate stakeholders of the firm and, thus, that providing for their needs and interests is in the best interest of the organisation. Other-regarding values comprise recognition of employees' right to freedom, well-being and equality. Employees' right to freedom sets limits to managerial control and demands that workers be paid sufficiently to provide for their livelihood. The right to well-being implies safe working conditions and the right to individually or collectively pursue their own needs and interests. Finally, the right to equality requires procedural justice on the part of the firm (Kroon & Paauwe, 2013).

I expect employee relations arrangements that are founded on value systems dominated by other-regarding values to elicit employee reciprocation in the form of greater commitment to the firm expressed in lower costs as a result of lower absenteeism and turnover, higher productivity because employees are prepared to go the proverbial extra mile, and higher innovativeness because employees are more willing and capable to share their knowledge with the firm (Allen *et al.*, 2013; Verdorfer *et al.*, 2013). Employee-oriented CSR, as I term this type of employee relations arrangements, is thus expected to result in both greater employee satisfaction and higher employee performance.

My study, therefore, is a response to the appeal for research regarding the extent to which ethical principles underlie firms' employee relations arrangements by authors such as Paauwe (2004), Legge (1998), Guest (2002), and Greenwood (2013). The focus in this research centres on under what conditions and to which extent multinational small and medium-sized enterprises (SMEs) employ an ethically-based approach toward their employees both at home and abroad. This focus has been selected because of the central position of the owner-manager in (multinational) SMEs which allow him/her to imprint an individual value system within the organisation to a much greater extent than that which is feasible in large organisations. An additional explanation is the scarcity of research on CSR and employee relations arrangements in (multinational) SMEs.

Several issues are of relevance in regard to this framework. The first issue of interest is what factors determine to what extent management perceives its employees as stakeholders who deserve decent and respectful treatment. The term stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organisation's objective" (Freeman, 1984, p. 46). Employees are stakeholders in both aspects: they affect firm performance – which creates a self-regarding motive to take their individual interests into consideration – and are affected by the organisation's processes and activities for achieving their objectives – which creates the organisation's responsibility to take their own interests into account. Secondly, if firms acknowledge employees as essential stakeholders, the question arises whether this is considered for both home country and host country employees. Finally, if firms attribute foreign and domestic employees an equal stakeholder status, a matter of interest is how they determine framing the adequate policies to reflect this equality in the host country environment.

This introduction intends to emphasise the relevance of the current research. In this aspect, I sketch the general globalisation and regionalisation background of this research in Section 1.2. Section 1.3 presents the rough outlines of the ways in which SMEs participate in the internationalisation process. Section 1.4 illustrates the rise of increasingly value-based approaches to conducting (international) business in the form of corporate social responsibility. The research problem itself is the subject of Section 1.5 while Section 1.6 delves into the academic and societal relevance of the research problem. In Section 1.7, the outline of the thesis is presented.

1.2 GLOBALISATION AND REGIONALISATION

Incidents such as the walkout mentioned in the introduction to this chapter facilitate the comprehension of how workers and trade unions in the ‘old’ EU member states fear employers may eliminate expensive, heavily regulated labour in the old member states in exchange for less expensive and less regulated labour in the new EU member states of Eastern Europe and that this may eventually lead to deteriorating labour conditions in Western Europe (Jürgens & Krzywdzinski, 2009; Vaughan-Whitehead, 2003). The so-called European Social Model – the concept that economic development must be accompanied by social progress in the form of the extension of social security and labour market regulation (Kohl & Platzer, 2003) – was believed to have come under pressure. However, certain authors question the evidence that a ‘race to the bottom’ is actually occurring in regard to labour conditions (Crane & Matten, 2004).

The background of this fear is formed by the continuing process of globalisation and regionalisation that began, in fact, after the Second World War but accelerated in the 1980s. Globalisation and regionalisation have been made feasible by advances in communication and transport technologies that significantly lowered the cost of international business (Crane *et al.*, 2008; OECD, 1998). This effect was strengthened considerably by the process of market liberalisation and opening up of hitherto closed markets all over the world beginning in the 1980s. In Europe, the establishment of the Common Market in 1991 and the institution of the Economic and Monetary Union (EMU) contributed to the increased interconnectedness of the national economies in the European Union (EU). Market liberalisation was the consequence of the neoclassical economic underpinning of the neoliberal economic policy that, worldwide, had gained the upper hand beginning at the end of the 1970s forward (Weishaupt, 2011). Neoliberals firmly believed that these globalisation and regionalisation processes which resulted from the pursuit of economic self-interest would ultimately lead to optimal economic outcomes for society in its entirety (Brickson, 2007). The neoclassical/neoliberal view has become the foundation of the so-called Anglo-Saxon model of shareholder capitalism or, as stated by Hall and Soskice (2001), liberal market economies.

Whether and/or to what degree globalisation leads to the convergence of national business systems – ‘clusters’ of interlocking institutional and business-cultural elements’ (Ferner & Quintanilla, 1998, p. 714) – is the subject of an intense convergence-divergence debate. This debate also addresses the transferability of human

resource management practices. Based mainly on neoclassical arguments, convergence theorists argue that, over the past decades, international market liberalisation has led to increasingly intense competition and, thus, to increasing pressure on companies to minimise their costs. Concurrently, governments perceived themselves as being forced to lower tax rates and decrease their spending in order to maintain their countries' attractiveness for international business. Spending cuts primarily affected national social security systems (Weishaupt, 2011). State involvement in the economy decreased because of the privatisation of state productive activities and deregulation. Technological advancement facilitated greater ease for companies to move economic activities from one geographic location to another which also made them less susceptible to union pressure. Combined with increased global competition, this has led to large-scale restructuring in especially manufacturing industries and to the rise of global sourcing (Crane *et al.*, 2008).

These developments negatively affected the capacity of nation states to govern in the traditional manner and the capacity of unions to protect their members' interests (Bondy *et al.*, 2007; Riisgaard, 2005). Consequently, companies' bargaining position versus governments and organised labour increased (Weishaupt, 2011). According to convergence theorists, this ultimately may lead to the convergence of human resource management policies in the form of global diffusion of 'best practices' (Ferner & Quintanilla, 1998).

Divergence theorists contend that specific national institutional configurations affect the way governments react to changing economic trends (Weishaupt, 2011). As stated by Richard Whitley (1999, p. 19): "Nation states still constitute the prevalent arena in which social and political competition is decided in industrial capitalist economies". Countries with relatively similar institutional settings can be comprised of groups based on distinctive institutional configurations in the areas of finance, industrial relations, education and training of employees, competition on input and output markets, and firm-employee relations (Hall & Gingerich, 2009b; Whitley, 1999). Divergence theorists either take institutional stability as an initiation point or maintain that countries may adapt institutions to changes in the economy in their own specific, path-dependent ways (Weishaupt, 2011).

The increasing popularity of the Anglo-Saxon model of shareholder capitalism, especially among right-wing European policy makers and European business, was due to the superior performance of the United States economy over the

last two decades compared to the European economies. Out of fear that their trade and industry's competitiveness could possibly deteriorate, European governments, even those with a left-wing dominance, introduced more and more elements of the Anglo-Saxon model (Gooderham *et al.*, 2004; Weishaupt, 2011). Interestingly, though, when comparing the economic performance of these two models over a longer timeframe, the performance of the Japanese model as well as the European Rhineland model was deemed superior during the 1980s and the first half of the 1990s. Furthermore, most small North-Western European states sharing many aspects of the Rhineland model – irrespective of the period – have exhibited an improved economic performance over the United States (Gooderham *et al.*, 2004).

Both the Japanese and Rhineland models allowed for taking care of interests of other stakeholder groups than shareholders alone. The inclusion of these other stakeholders' interests, especially of employees, was considered as the basis for economic success (Gooderham *et al.*, 2004). It has been determined that the pursuit of self-interest as advocated by the neoclassical perspective did not automatically result in optimal societal outcomes. Examples include the rising inequality in income distribution and the greater employment insecurity of employees (Bondy *et al.*, 2007; Scherer & Palazzo, 2011).

1.3 INTERNATIONALISATION OF SMEs

Globalisation and regionalisation were traditionally associated with the activities of large and powerful corporations. SMEs were previously rather averse to internationalisation because of its perceived high costs and high financial risk (Camisón & Villar- López, 2010). This perception may be related to failing management capabilities, scarce financial resources, and lack of legal knowledge (Hollenstein, 2005). Currently, internationalisation is no longer reserved exclusively to large corporations but is increasingly being practised by SMEs; first and foremost by means of export since this internationalisation method carries the least risk. However, the number of multi-national SMEs is rapidly rising (Hessels & Stigter, 2004). In 2009, 2% of European SMEs had engaged in foreign direct investment. If SMEs are split up into size categories, 2% of micro enterprises (up to ten employees) had invested abroad compared to 6% and 16% of small (10-49 employees) and medium-sized firms (50-249 employees), respectively (European Commission, 2010). In 2010, the share of SMEs in total Dutch foreign direct investment amounted to 2% (Tiggeloo *et al.*, 2013).

The increasing internationalisation of SMEs has been stimulated, first, by technological developments lowering the costs of both transport and access to communication and information and, second, by the international market liberalisation that facilitated entering new markets and made them less risky. In the EU, the establishment of the Common Market paved the way for the internationalisation of European SMEs (Hessels & Stigter, 2004). Moreover, globalisation also increased international competition for SMEs which subsequently elicited SME internationalisation (Camisón & Villar-López, 2010). Previously, the most significant motive for foreign investment by SMEs was seeking efficiency, however, market-seeking motives are now rapidly gaining in relevance (Hessels & Stigter, 2004; Hollenstein, 2005). In 2007, greater proximity to the market was the reason for having established a foreign subsidiary for approximately 30% of European multinational SMEs (European Commission, 2010).

Market-seeking strategies are intended to exploit firm-specific capabilities that yield an international competitive advantage. Efficiency-seeking strategies entail a search for optimisation of the value chain. In 2007, 11% of European multinational SMEs indicated that profiting from lower labour costs had been the primary consideration in establishing a foreign subsidiary (European Commission, 2010). Resmini (2000) suggested that many European SMEs from traditional manufacturing sectors have established production facilities in Central and Eastern Europe because of the low labour costs. In addition to market- and efficiency-seeking motives, resource-seeking motives – i.e., gaining access to natural resources – can be distinguished for foreign direct investment (Hessels & Stigter, 2004; Sippola, 2009). Hessels (2004) ascertained that 16% of Dutch SMEs conducted business in Eastern Europe. Of these, 10% did so through a subsidiary.

1.4 THE RISE OF CSR

Globalisation, privatisation, and liberalisation expanded many companies' freedom of action in the international marketplace. This greater freedom enabled companies to profit from differences between national environmental and social regulatory regimes in ways that conflicted with the ethical standards of many people in highly developed Western societies (Crane & Matten, 2004). Non-governmental organisations (NGOs) such as Greenpeace, Oxfam, and Clean Clothes Campaign reinforced these feelings of ethical unease with the success of their campaigns against social and environmental abuses resulting from large

multinational corporations' strategies and activities. Thus, multinationals became painfully aware that their activities were under close public scrutiny. They responded by engaging in what was referred to as corporate social responsibility (CSR) to maintain legitimacy in the eyes of the public at large (Van Tulder & Zwart, 2006; Vogel, 2005).¹ In the field of workers' rights, for example, corporations introduced codes of conduct addressing abuse of employees by their local subsidiaries and suppliers in developing countries (Egels-Zandén, 2009b).

The increased public awareness of ethically questionable activities by multinational corporations also led to an increase of academic research on corporate social responsibility (Lockett *et al.*, 2006). The subject of CSR, however, was not new to the academic world as the academic debate on CSR dates back to the 1950s. Nevertheless, there is still no coherent CSR theory or unambiguous CSR terminology (Garriga & Melé, 2004). Definitions of CSR abound, not in the least because CSR has become an umbrella term overlapping with other concepts regarding the manner in which business and society relate to one another such as corporate sustainability, corporate citizenship, and corporate social performance (Matten & Moon, 2008). This is evidenced by Dahlrud's (2008) study in which 37 definitions of CSR are quoted, and this list is certainly not exhaustive.

Dahlrud (2008) distinguishes five dimensions that can be individually or collectively distinguished in all CSR definitions: the stakeholder, social, economic, environmental, and voluntariness dimensions. While the first four of these dimensions indicate the scope of CSR, the voluntariness dimension implies that CSR activities with respect to employees as stakeholders should go beyond regulatory requirements and collective bargaining outcomes. CSR activities are voluntary activities which are intended to meet the needs and interests of society at large as well as those of particular stakeholder groups or the environment and that may even result in strengthening the firm's financial performance (Rowley & Berman, 2000).

Despite – or perhaps because of – its ambiguity, over the course of the past decades, corporate social responsibility has become a popular management concept in the business world (Crane *et al.*, 2008). Numerous companies, government institutions, and NGOs are engaging in CSR or are attempting to stimulate its adoption. Tens of thousands of websites have emerged that address countless aspects of CSR (Vogel, 2005). The most attention, however, of both the general public and the academic world has been focussed on large multinational corporations which provided

¹ For a definition of CSR, see Sections 1.5 and 2.2.1.

these corporations, more than other types of companies, an incentive to visibly engage in CSR and to formally emphasise that CSR was structurally addressed within the company (Fuller & Tian, 2006; Graafland *et al.*, 2003; Lee, 2008).

Not surprisingly, CSR has, to some extent, developed into exaggerated publicity and a form of misrepresentation whereby even tobacco companies claim that they engage in CSR (Fooks *et al.*, 2013; Jones & Nisbet, 2006). Many companies engage in CSR in certain domains and fail to do so in others. Wal-Mart, for example, engages in environmental sustainability, but its employment relations policies can only be characterised as unsustainable (Pfeffer, 2010). This is one of the reasons why the biggest Dutch pension fund, ABP, has recently decided to withdraw investments in Wal-Mart (ABP, 2012). The argument in this thesis is that CSR is value-based and, consequently, by definition, applies to the firm's entire business process (Jones & Nisbet, 2006).

Although CSR – as is implicated by the term itself – is commonly associated with large corporations, it is becoming equally significant for small and medium-sized enterprises. Though SMEs may be less visible worldwide than large corporations, in their own local environments, they must protect their reputation. The firm must be respected in the local community and be trusted by customers and employees in order to survive in the long run (Grayson, 2003). Large corporations are increasingly setting standards for their SME suppliers regarding the societal impact of their business processes and activities (Grayson, 2003). Finally, the conviction that CSR engagement through positive reputation effects as well as through product and process innovation may contribute to financial performance is gaining ground amongst SMEs (European Multistakeholder Forum on CSR, 2004; Hoevenagel & Bertens, 2007; Jenkins, 2006).

1.5 RESEARCH PROBLEM AND DEFINITIONS OF SOME KEY TERMS

According to Rowley (2000), CSR must be defined in relationship to the context in which it is studied since the form and content of corporate social responsibility differ between contexts. Because this research is directed at CSR activities toward employees, the stakeholder and voluntariness dimensions of CSR are specific key issues to be elaborated (Greenwood, 2013). This makes Jones' (1980, pp. 59-60) definition – “[c]orporate social responsibility is the notion that

corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract” – best applicable to this study. This definition is not a sufficient foundation, however, upon which to adequately develop the employee-oriented CSR concept as it contains no reference to activities and outcomes. Therefore, I complement Jones’ definition of CSR with Wood’s (1991, p. 693) definition of corporate social performance as “a business organisation’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships”.

Employee-oriented CSR can then be defined as an employee-relations arrangement perceived by employees to be established predominantly on management’s other-regarding values. This signifies that employees are a central stakeholder group whose needs and interests should be considered as an end in itself and moderated by management’s instrumental awareness that employees are key to the firm’s success. This is somewhat in accordance to Paauwe’s (2004, p. 5) vision on what HRM should ideally be: “... added value and moral values ... can be aligned in such a way that the unique blending (*unique* because it will be custom made for every firm, company, and organisation) results in a sustainable competitive advantage” (*italics in the original*). Yet, I prefer to address this issue in terms of employee-oriented CSR in order to emphasise that, in my perspective, it is employees’ perception and appreciation of management’s other-regarding values that affect their work attitude and, thus, the amount of added value to the firm.

This research’s approach of employee relations arrangements within firms is distinct from the power-based (strategic) human resource management and industrial relations approaches in that it stresses the role of the owner-manager’s other-regarding values in shaping the arrangement. Other-regarding values become evident by taking employees’ needs and interests for their own sake as the beginning point for the design of policies and practices. Consequently, employee-oriented CSR, by necessity, is expressed in an organisational climate of mutual trust. It consists of policies and practices that bestow material and immaterial benefits upon employees which exceed the obligations dictated by legal regulations and/or collective bargaining agreements. I presume that employees feel respected and appreciated by such an arrangement which would result in a greater degree of commitment to the company than that under other types of employee relations arrangements such as the high-performance model as developed within HRM literature. Greater commitment will subsequently improve the company’s performance through less frequent absenteeism and turnover, higher productivity and greater innovativeness

(Guest & Peccei, 2001; Paauwe, 2004; Pfeffer, 2010; Tsui *et al.*, 1997; Van Buren, 2005).

Surprisingly, in view of these positive effects, not many companies actually have introduced or maintained these types of employee relations arrangements (Guest & Peccei, 2001; Pfeffer, 1994). Guest and Peccei (2001) have ascertained that many companies claiming to engage in what they refer to as partnership at work – a combination of participation and progressive human resource management practices – only pay hypocritical respect to this concept. In these companies, the level of mutual trust is too minimal to bring the expected positive outcomes of partnership to fruition. Apparently, there is a number of conditions that must be fulfilled if a firm is to introduce and maintain employee relations in such a way that it becomes evident to employees that they are respected and appreciated for their own sake, and mutual trust between employees and management is created. Especially for multinational enterprises (MNEs), such an employee relations regime will be difficult to establish company-wide due to the diverging national institutional environments in which they operate. Yet, at the level of SMEs, these types of employee relations seem easier to establish because of the central role of the owner-manager (Jenkins, 2006). Therefore, this thesis addresses key issues including under what conditions multinational small and medium-sized enterprises are intrinsically motivated to engage in CSR towards their employees, and whether this responsibility is exercised towards both home country and host country employees.

In strategic management literature, people are increasingly perceived as one of the few potential sources of sustainable competitive advantage. Technological innovations are being imitated at an ever more rapid pace due to modern information technology and, thus, form only a transient source of competitive advantage (Barney & Wright, 1998; Boxall, 1998; Coff & Kryscynski, 2011; Huselid, 1995; Pfeffer, 1994; Wright *et al.*, 1994). Employee commitment to the firm is generally considered as conditional for people becoming a source of competitive advantage. Consequently, employee relations arrangements must be designed in such a manner that they increase employee commitment. There is a consensus in the literature that employee relations arrangements must have a normative foundation in order to result in sustainable employee commitment. This normative basis consists of the other-regarding values in the owner-manager's value system that are evident in perceived employer commitment to employees (see e.g. Paauwe, 2004; Shore *et al.*, 2006; Van Buren, 2005). Value systems are individually determined combinations of self- and other-regarding values (Rokeach, 1970).

Self-regarding values prompt employers to stimulate employee commitment by taking into consideration the needs and interests of employees due to their influence on firm performance. Other-regarding values are necessary to restrain owner-managers from opportunistically encroaching on employee relations arrangements (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003; Jones, 1995). Breach of employer commitment undermines management credibility and leads to organisational cynicism resulting from employees' perceptions of management interests and worker exploitation as being the hidden agenda behind the introduction of new employee relations practices (Ferris *et al.*, 1998).

1.5.1 Research content

My research regarding the introduction and transfer of employee-oriented CSR concentrates on Dutch multinational SMEs that have established subsidiaries in Poland and/or Estonia. A multinational SME is defined as an SME that “engages in foreign direct investment and owns or controls value-adding activities in more than one country” (Dunning, 1992, p. 3). Poland and Estonia have been selected because their national institutional environments differ sharply from the Dutch national institutional environment (Eurofound, 2007). While the Netherlands has a long-established democracy with a capitalist economy and is a founding member of the EU, Poland and Estonia are both transition economies which have only recently (2004) been given access to the EU. I expect this contrast to accentuate the institutional differences that possibly affect international transfer of employee-oriented CSR practices. Very important are the efforts to transfer employee-oriented CSR practices despite the obstacles posed by institutional differences which can be considered the litmus test of the owner-manager's other-regarding values whereby all of the company's employees are legitimate stakeholders in the firm.

Transfer of practices implies the replacement of normal practices and orders of the host-country institutional environment by new “rites and rituals” that have originated in the parent company's home-country institutional environment (Czar-niawska & Mazza, 2003). The difference between various national institutional environments is indicated by the concept of institutional distance. Based on Scott (1995), Kostova and Roth (2002, p. 217) define institutional distance as the difference between “the issue-specific set[s] of regulatory, cognitive, and normative institutions” in home and host countries. To effectively address the institutional

distance between home and host country, institutional entrepreneurship at the organisational level is required (Battilana *et al.*, 2009; Cantwell *et al.*, 2010; Pacheco *et al.*, 2010). The term institutional entrepreneur was coined by DiMaggio (1988) to refer to those actors who attempt to transform institutions and who can be perceived as “actors who leverage resources to create new or transform existing institutions” (Battilana *et al.*, 2009, p. 68). Institutional entrepreneurs are change agents within “social structures that have attained a significant degree of resilience. They comprise cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2001, p. 48). This thesis presumes that institutional entrepreneurship can be applied even to the micro-level of SMEs (Battilana *et al.*, 2009; Cantwell *et al.*, 2010; Pacheco *et al.*, 2010).

Various authors (see e.g., Cantwell *et al.*, 2010; Thornton & Ocasio, 2008) suggest that multinational enterprises are more likely than purely domestic companies to engage in institutional entrepreneurship. First, because of the simple fact that they operate in multiple institutional environments, they are afforded an opportunity to compare the relative merits of diverse institutional arrangements and, therefore, select those that they consider most relevant to their needs. Accordingly, they would like to apply these arrangements to all of their subsidiaries. Second, multinational enterprises presently form networks of relatively autonomous subsidiaries and incentivise them to facilitate practices transferable across frontiers (Cantwell *et al.*, 2010). However, multinational SMEs that transfer employee-oriented CSR face obstacles such as a deficiency of adequate knowledge concerning the host country institutional environment and lack of specialised staff. The important issues then are whether, to what extent, and in what form owner-managers of multinational SMEs can exercise institutional entrepreneurship at the level required in order to successfully transfer practices.

1.6 SCIENTIFIC AND SOCIETAL RELEVANCE

The focus on SMEs is academically and socially relevant since the quantity of academic research on SMEs is relatively limited even though SMEs produce the most significant portion of total value added in the national economy, constitute the overwhelming majority of firms, and provide the most significant portion of total employment (Allen *et al.*, 2013; Lepoutre & Heene, 2006; Tilley & Tonge, 2003). Since this thesis focuses on European SMEs, I utilise the within Europe widely ac-

cepted definition of the European Commission that SMEs are those legally and economically independent firms that employ fewer than 250 people (European Commission, 2003).¹ In 2010, SMEs comprised as much as 99.8% of the number of companies in the EU providing 66.9% of EU employment (Wymenga *et al.*, 2011). The corresponding figures for the Netherlands in 2010 were 99.7% and 68.7%, respectively (European Commission, 2011). These figures clearly disavow the tendency to underestimate the economic importance of the SME sector that results from the invisibility of individual SMEs relative to large multinational corporations. The difference in visibility appears to lead to the misconception that large multinational corporations have a greater effect on the economy than the SME sector (Curran & Blackburn, 2001; Thompson & Smith, 1991).

Moreover, in literature, the heterogeneity of the SME sector as well as their differences from large firms regarding characteristics such as structure, system, strategy, management style, and staff are widely emphasised (see e.g., Bryson, 1999; Curran & Blackburn, 2001; Jenkins, 2006; Spence & Rutherford, 2004; Storey, 1994). First, SMEs are generally managed by their owner who can act quite autonomously by drawing as little attention as possible from both governmental institutions and trade unions (Jenkins, 2006; Koch & De Kok, 1999; Storey, 1994). Second, there is significantly less development in the specialisation of the workforce than what occurs in large firms (Koch & De Kok, 1999; Lepoutre & Heene, 2006). Third, in smaller firms, the relationship between employees and management is more informal and personal than in larger firms due to closer physical proximity (Bryson, 1999; Lepoutre & Heene, 2006). Fourth, profit and growth ambitions are widely diverging among owner-managers: some only want to make a living; others strive for fast growth; while still others target maximum profit (Spence, 2007). Finally, SMEs are generally characterised by a deficiency of slack resources, especially financial and time resources (Spence, 2009; Tilley & Tonge, 2003).

When investigating SME employees, we can observe that they are very heterogeneous regarding age, gender, commitment to the company, and skill and educational levels. For example, in small service companies, personal and social skills are of

¹ Unfortunately, it is not exactly clear which firms can be classified into the SME category as there is no generally accepted definition of SMEs, and the definitions used in practice differ extensively. First, what is perceived as small depends on the size of the economy; in large economies such as the United States, a firm that is considered small may be perceived as large in smaller economies such as Norway. Second, different measures of size such as employees and sales lead to different collections of firms referred to as SMEs (Curran & Blackburn, 2001).

more significance than formal qualifications (Curran & Blackburn, 2001). On average, SME employees tend to have had less formal education than employees in large firms (Storey, 1994). Nonetheless, SME personnel strategies, policies and practices have received relatively minimal attention from academic researchers (Cassell *et al.*, 2002; Mankelow, 2008). Human resource management is developed for and researched mainly in large enterprises. However, whether and to what degree the results of these studies also apply to SMEs is unclear (Heneman *et al.*, 2000).

In the framework of SMEs, the term corporate social responsibility is a bit infelicitous since it suggests that CSR is the prerogative of corporations. This suggestion is also implied in academic research that is predominantly focused on large firms. Research on CSR in SMEs has only recently begun to be realised (Fuller & Tian, 2006; Laplume *et al.*, 2008) and, as a result, research methodologies have been developed with a focus on large corporations without being readily applicable to SMEs (Thompson & Smith, 1991). Yet, CSR in SMEs appears to be radically different as it is driven by the interaction between personal values and social relationships, on the one hand, and business interests on the other (Fuller & Tian, 2006).

This differentiates CSR practices in SMEs from those in large corporations in certain important respects:

1. CSR in SMEs is only minimally codified;
2. The person with ultimate responsibility for managing the organisation is primarily the owner-manager;
3. Employees are key stakeholders in SMEs;
4. SMEs experience more difficulties in recognising and implementing CSR practices due to a lack of slack resources in the form of time, specialised skills, and financial resources;
5. Informal relationships are critical for the success of many SMEs as they cannot undercut larger rivals on price due to scale disadvantages; and
6. The specific industrial sector has a relatively significant influence on company culture with respect to social responsibility (Graafland *et al.*, 2003; Jenkins, 2006; Lepoutre & Heene, 2006; Spence, 2007; Tilley & Tonge, 2003).

Although CSR has received widespread attention in practitioner circles and has been the subject of extensive academic research, (see e.g., Lee, 2008; Pfeffer, 2010), introduction and transfer of socially responsible policies and practices

intended for employees in multinational corporations, or even in multinational SMEs, has – to the best of my knowledge – only been minimally, if at all, researched (De Jong, 2011; Gellert & de Graaf, 2012; Mankelow, 2008; Pfeffer, 2010). Pfeffer (2010) states that the personnel component has been conspicuously unaddressed in CSR research. This leads to an incomplete representation of CSR since it affords an opportunity for, for instance, companies to engage in environmental CSR activities while concurrently acting irresponsibly towards employees.

In the industrial relations literature, on the other hand, the CSR issue has been addressed in studies of newly emerging transnational industrial relations tools such as codes of conduct and international framework agreements (IFAs). Codes of conduct are unilateral business instruments often instituted by companies for securing workers' rights after – or to prevent – NGO pressure. Thus, they represent a governance system for workers' rights that is constrained by the corporation. This system is looked upon with disapproval by trade unions since they consider codes of conduct as public relations tools that are intended to prevent union organisation and influence. Unions prefer negotiating IFAs between the relevant Global Union Federation and the corporation in order to guarantee the negotiated workers' rights (Egels-Zandén, 2009b; Hammer, 2005). In addition to IFAs, there are also EFAs, European framework agreements, mostly negotiated between European works councils and multinational enterprises (Telljohann *et al.*, 2009). These transnational industrial relations tools, however, are exclusively directed at large transnational corporations and their supply chain with a focus on securing workers' rights in developing countries (Egels-Zandén, 2009a; Hammer, 2005).

These observations emphasise the significance of investigating the position of employees as internal stakeholders of small and medium-sized enterprises in an international context. Furthermore, this topic is of increasing relevance because, over the last few decades, foreign direct investment by SMEs has increased considerably (see Section 1.3). Finally, as Peng and Pleggenkuhle-Miles (2009) argue, multinational firms are confronted with the dilemma of how to address possible conflicting interests between employees in the home country and employees in the host country. Although there is only minimal research regarding the phenomenon of employee-oriented CSR, its compounding components have been researched more or less extensively, at least for large corporations. From Section 1.4, three theoretical perspectives emerge that are relevant for identifying gaps regarding the introduction and transfer of employee-oriented CSR in multinational SMEs: the stakeholder view on CSR; strategic human resource management (SHRM); and institutionalism.

As a matter of course, the field of industrial relations (IR) is relevant as well since employee power is moderated by union strength, activism by non-union groups, and the strictness and scope of government legislation. In this thesis, however, the emphasis is on the margin of variation that owner-managers of individual multinational SMEs experience in the design and implementation of their firms' employee relations arrangements. Government legislation and – at least in continental Europe (Windmuller *et al.*, 1987) – union power constitute a specified framework for individual SMEs that owner-managers cannot influence. Therefore, it is more sensible to address industrial relations in the framework of the various national business systems that encapsulate multinational SMEs. In contrast, stakeholder theory and strategic HRM focus on how management can design firm-specific employee relations arrangements within the constraints determined by the national business system.

According to the stakeholder view on CSR, employee-oriented CSR entails employees being viewed as legitimate stakeholders of the firm because they both affect and are affected by the actions of the firm (Van Buren, 2005; Agle *et al.*, 1999). Therefore, employee-oriented CSR implies that employees' needs and interests should be managed beyond what legal and contractual obligations prescribe. Second, I use SHRM arguments to indicate the conditions under which and to what extent employees possess instrumental value to owner-managers as a potential source of competitive advantage. As legal requirements, contractual obligations, norms and values, and the routines of interaction between employers and employees differ between countries, the institutionalist perspective is relevant in order to understand the diverging demands on content and form of employee-oriented CSR practices (Campbell, 2006; Matten & Moon, 2008).

1.7 THESIS OUTLINE

This *first chapter* addressed the general background of the research problem in an attempt to assist the reader to perceive it in a broader framework. Subsequently, the research problem and its underlying issues have been outlined and, finally, the relevance of this research in examining employee-oriented CSR as a genuine, overt issue instead of a bundle of loose components has been depicted.

Chapter 2 contains the literature review while *Chapter 3* addresses the development of the conceptual model. From the literature regarding the compounding

aspects of employee-oriented CSR, propositions are derived indicating the relations in the conceptual model.

Chapter 4 includes the methodology of the research. The empirical research comprises a qualitative study complemented with quantitative elements. During the first stage, qualitative research was conducted for the case study companies in the form of interviews and the study of internal and external documents containing information on policies and practices relevant to personnel. The second stage consisted of quantitative research in the form of a survey administered among the entire employee population of the case study companies in order to test the hypotheses in the conceptual model. Furthermore, I discuss the sampling procedure, coding techniques, and data analysis methods. Finally, I address the relevant reliability and validity issues. In this framework, the difficulties inherent in this type of empirical research are discussed as well as whether and how these difficulties have been resolved.

Chapter 5 presents a description of the case study companies and of the relevant components of the national business systems involved in this research. First, basic information about the case study companies is provided with regard to sector, type of activities, organisational and ownership structures, and the market strategy pursued. Subsequently, the division of roles concerning market strategy between the parent company and the foreign subsidiary is discussed. Thereafter, I consider the role that owner-managers expect employees to play in both the parent company and the foreign subsidiary. Second, the relevant elements of the various national business systems are explored. With regard to Eastern Europe, I open with a general overview of the transition from a planned economy to a market economy. This is followed by the presentation of specific elements of the national business systems of Poland and Estonia.

Chapters 6 and 7 provide the results of the empirical research. The findings regarding employee relations arrangements in the parent companies are addressed in Chapter 6 while the findings on the transfer of parent company elements and the final content of the subsidiary employee relations are the subject of Chapter 7. Both chapters are concluded with a cross-case analysis in which the employee relations arrangements of the case studies' establishments are typified.

Chapter 8 discusses the company-wide comparisons of the case study firms. Furthermore, it is investigated to what extent employees' appreciation of the

employee relations arrangement differs across institutional environments and functional categories. In the conclusion, the research questions are answered. Subsequently, I discuss the theoretical implications of this research and formulate suggestions for practical implications of the findings. Finally, the limitations of this research are discussed, and possible avenues for future research are mapped.

CHAPTER 2

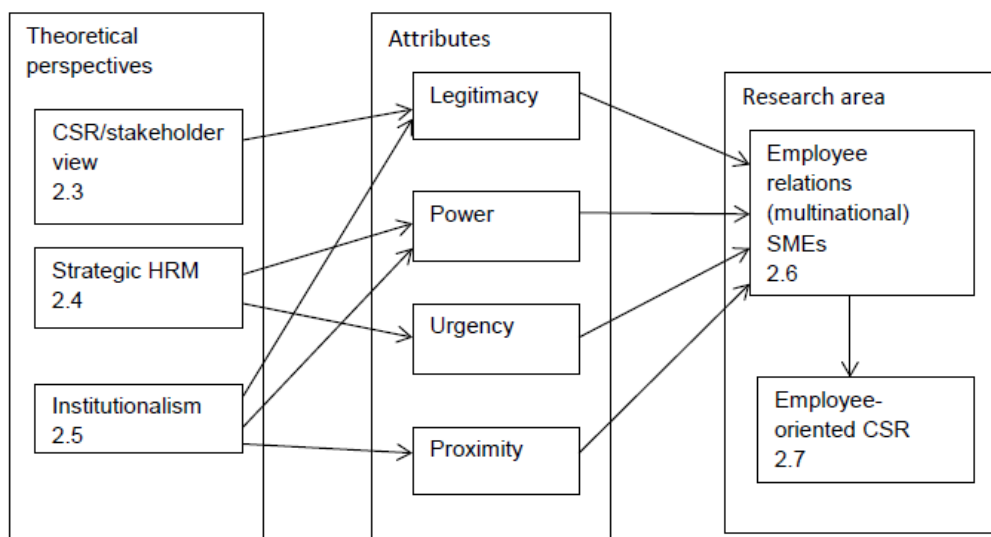
FOUNDATIONS OF EMPLOYEE-ORIENTED CSR

2.1 INTRODUCTION

In this chapter, I conduct a literature review on the multi-faceted issue of employee-oriented CSR based on Mitchell *et al.*'s (1997) model of stakeholder identification and salience as complemented by Driscoll and Starik (2004). The relevant aspects are:

1. the legitimacy of employees as stakeholders of the firm;
2. the power with which they can enforce their claims to the firm;
3. the urgency of employees' claims to the firm; and
4. the proximity of employees to the owner-manager.

Figure 2.1 The relationships between employee attributes, theoretical perspectives, employee relations arrangements in (multinational) SMEs and employee-oriented CSR in particular



In the subsequent sections, the theoretical perspectives most relevant to this issue – the stakeholder, strategic human resource management (SHRM), and institutional perspectives, respectively – are discussed. Figure 2.1 indicates the employee attributes addressed by a particular theoretical perspective. These theoretical perspectives are employed to demonstrate the manner in which employee attributes construct the cornerstones of a categorisation of employee relations arrangements in (multinational) SMEs in which employee-oriented CSR is emphasised. The numbers refer to the section wherein the issue concerned is addressed.

In Section 2.2, the relevance of employee-oriented CSR is indicated by signalling that the owner-manager's other-regarding values form the source of positive outcomes for both employees and the firm. I utilise the stakeholder perception of the firm – as the dominant theoretical perspective in CSR deliberation – to address the factors determining the introduction and transfer of employee-oriented CSR. These factors are, first and foremost, related to the other- and self-regarding values of the owner-manager with regard to the role and position of the employees in the company. Based on these two types of values – whether or not in combination – owner-managers decide if employees are sufficiently relevant as stakeholders to take their needs and interests into consideration when managing the company.

The issue of employee power is addressed in Section 2.3. The power of employees as stakeholders depends on their significance as a potential source of competitive advantage. Employee-oriented CSR is characterised by management's conviction that all employee categories within the firm contribute to competitive advantage. This makes the resource-based view of the firm (RBV), as embodied in SHRM, relevant. In this perspective, employees are instrumental in acquiring and sustaining competitive advantage if their knowledge, skills, and abilities are valuable, rare, inimitable, and organisationally relevant, i.e., the firm must be organised towards utilising employees as a strategic resource (Black & Boal, 1994). This core theme of SHRM was shared wholeheartedly by the owner-managers of the case-study companies though they make only minimal use of the sophisticated human resource management systems associated with SHRM. This justifies paying attention to SHRM despite SHRM having been researched primarily for large corporations.

Content and character of national industrial relations systems and of employment relations practices within firms tend to differ between countries. In Section 2.4, therefore, I employ institutional theory to analyse the legitimacy and power of

employees as stakeholders as well as the legitimacy of employee relations practices across various national institutional environments. The difference between institutional environments is captured in the concept of institutional distance, a term which implicitly encompasses the proximity attribute.

In Section 2.6, employee relations arrangements in SMEs are addressed. Furthermore, I elaborate a typology of employee relations arrangements along the dimensions of owner-managers' other-regarding values and employee power. In this aspect, I argue that transfer of employee relations practices from one institutional setting to another requires translation in order to be acceptable in the other institutional setting (Sahlin-Andersson & Engwall, 2002b). Thus, the owner-manager is required to demonstrate institutional entrepreneurship when translating home country practices to foreign subsidiary institutional settings for a successful transfer of the parent company employee relations arrangement. In Section 2.7, employee-oriented CSR – the focal employee relations arrangement in this thesis – is elaborated. In Section 2.8, I revisit the gaps signalled within the literature and draw certain conclusions which form the prelude to the conceptual model formulated in the subsequent chapter.

2.2 THE POSITION OF EMPLOYEES IN THE FIRM: CSR AND THE STAKEHOLDER PERSPECTIVE

2.2.1 Motives for engaging in CSR

CSR is a multi-layered concept. Based on the United States institutional context, Carroll (1979) distinguishes four categories of corporate social responsibility. First, firms bear – being part of the economic sphere of society – the responsibility to profitably sell goods and services. Second, the economic function must be exercised within a framework determined by law and regulations. This concerns behaviour as expected and enforceable by society. Third, firms have an ethical responsibility entailing that, in their business operations, they meet societal expectations about what is right and fair that go beyond what is required by law and, thus, are not enforceable by society. Finally, discretionary or philanthropic responsibility encompasses the purely voluntary contribution of resources to society in order to improve quality of life. Basu and Palazzo (2008, p. 124) relate their definition of CSR to the latter two categories: “the process by which managers within an organisation think about and discuss relationships with stakeholders as well as

their roles in relation to the common good – to what extent the organisation contributes to society beyond what is good for business – along with their behavioural disposition with respect to the fulfilment and achievement of these roles and relationships”.

Whether and to what extent thinking in terms of the stakeholders is incorporated into company behaviour is reflected in the company’s organisational climate. According to Dickson *et al.* (2006, p. 351), organisational climate is a higher-level construct that “reflects beliefs about the organisation’s environment that are shared among members and to which members attach psychological meaning to help them make sense of their environment”. Denison (1996) asserts that the organisational climate is constructed upon the organisation’s value system. CSR can be considered as an intrinsic component of an organisation’s climate that differentiates that organisation from other organisations with different organisational climates (Basu & Palazzo, 2008).

In this aspect, a distinction can be evidenced between *instrumental* commitment – based on external incentives – and *normative* commitment to CSR – stemming from the aspects of the organisational climate based on other-regarding values (Basu & Palazzo, 2008). Normative CSR commitment integrated into the organisational climate can be less easily decoupled from the company’s everyday activities than instrumental CSR commitment (Weaver *et al.*, 1999). Consequently, acting responsibly towards certain stakeholders while simultaneously ignoring or even acting against the needs and interests of other stakeholders falls outside such a concept of CSR. In much of the CSR literature, this tension is not recognised (Burke & Logsdon, 1996; Pfeffer, 2010). However, if CSR is not integrated entirely into all business processes of the company, it can easily degenerate into portraying a false favourable impression if only those CSR aspects that positively contribute to shareholder value are addressed. Boasting about the company’s contribution to society, in that case, reeks of insincerity. Another consequence of such a policy is that the external and international aspects of CSR are emphasised at the expense of internal aspects such as the employee relations arrangement (Jones & Nisbet, 2006; Marens, 2012).

Basu and Palazzo’s (2008) division of motives for engaging in CSR with normative and instrumental motives can be ethically translated into *duty-aligned* and *utilitarian* motives, respectively (Swanson, 1995). Duty-aligned perspectives are related to deontological ethical theories. In the framework of employee-oriented CSR, especially Kant’s ‘categorical imperative’ that people should never be treated

as merely a means to an end, is relevant. Utilitarianism, on the other hand, allows for people to be treated purely as means to an end if this end serves the greater good of society in its entirety (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003; Freeman, 1999).

Values form the foundation of motives. Rokeach (1970, p. 124) defines values as “a type of belief, [...], about how one ought or ought not to behave or about some end-state of existence worth or not worth attaining”. They can be perceived as assumptions or commitments stemming from particular world views that function as evaluative frames for relationships and behaviour. Values motivate the actions that achieve specific goals (Rendtorff, 2009). The design of a firm’s organisational climate is based on those values which top management deems exceptionally significant for success (Swanson, 1999). Personal values affect the way managers/owners perceive the world. Consequently, they codetermine managers’ societal and financial orientation and directly influence strategic decisions. Managers’ personal value systems are embedded in their national institutional environment (Reynaud *et al.*, 2007).

Values can be distinguished in self-regarding and other-regarding values (Agle *et al.*, 1999). The discriminating criterion is the weight of self-interest in the continuum of the values of managers. It has been suggested that self-regarding values are evident in profit-maximisation and shareholder-centred values. Other-regarding values are also demonstrated in stakeholder-centred values; however, attention focuses on the effects of company activities on stakeholders rather than only shareholders (Agle *et al.*, 1999). In principle, conditions for engaging in CSR are more favourable in SMEs than in large corporations for the very reason that SME owner-managers are afforded a greater opportunity to imprint their companies with their individual personal values much more than the CEOs of large corporations are able. After all, they do not have to take into consideration the interests of unrelated, external shareholders, and they are in much closer contact with the firms’ operational processes than CEOs in large firms (Lee, 2008; Mankelow, 2008; Spence, 2007).

2.2.2 SMEs and employees in CSR research

Lee (2008) signals, in his influential paper on the evolution of CSR theory, two gaps in the CSR literature that are relevant to this thesis. First, research regarding CSR in SMEs is minimal despite the fact that the SME sector forms the largest sector in trade and industry in terms of employment and contribution to gross domestic product (Wymenga *et al.*, 2011). Second, there is little internationally comparative CSR research, for instance, with respect to the effects of different national institutional environments on the structure and content of CSR. Research on CSR as engaged in by SMEs requires the application of other theoretical and conceptual tools besides studying CSR in large corporations because the competitive and institutional environment affects SMEs differently than large corporations (Lee, 2008). This is evidenced by existing research on CSR in SMEs suggesting that SMEs only minimally engage in explicit corporate social responsibility (Fuller & Tian, 2006; Graafland *et al.*, 2003). This may be partially related to the lack of reflection by SMEs on the social impact of their activities. They may believe that, because of their moderate size, their impact is negligible. Another reason may be formed by the term ‘corporate’ social responsibility itself that does not seem to apply to SMEs since SMEs generally do not possess corporate character (Habisch, 2004).

In practice, many SMEs engage in implicit CSR (Mandl & Dorr, 2007). If SMEs recognise CSR, then they generally interpret this concept to apply to the internal environmental and social conditions in the company and to the local community (De Graaf & Herkströter, 2007; Hoevenagel & Bertens, 2007; Jenkins, 2006; Lepoutre & Heene, 2006). SMEs’ engagement in CSR is usually determined by weighing off profits, a fair personnel policy, and an environmentally friendly production process (Hoevenagel & Bertens, 2007; Jenkins, 2006; Mandl & Dorr, 2007). If asked for an explanation of why they do *not* perform specific CSR activities, owner-managers often mention a deficiency of slack resources as the obstacle hindering them in their CSR engagement (Hoevenagel & Bertens, 2007; Lepoutre & Heene, 2006). Lee (2008) suggests that, since SMEs are often keener on short-term profit and are short of resources compared to large firms due to competitive pressures, they are less likely to develop long-term strategic stakeholder management.

With regard to academic relevance, it is remarkable that, although there are extensive industrial relations and HRM literatures on the employment relationship, em-

employee issues have not been specifically included in the CSR framework. CSR studies do not explore how management practices affect employees, for instance, how employees experience the consequences of company actions such as layoffs or, more positively, how they value benefits from human resource management practices such as work-life balance programs (Pfeffer, 2010; Wood, 2010). This observation is also apparent for practitioners.

These deficiencies call for research on how institutional constraints and owner-managers' personal ethics affect the design of employee relations arrangements within multinational SMEs. The research will encapsulate subjects such as the role of the owner-manager's value system in the employee-employer relationship and the ways in which mutual expectations and evaluations of employers and employees are formed and interpreted (Wood & Jones, 1995). As a result, this manner of categorising employee relations arrangements is distinct from both industrial relations and human resource management. The essential difference consists of the relative emphasis on the role of owner-managers' personal ethical values compared to the role of employee bargaining power in shaping the employment relationship.

Central to the value dimension is the concept of human dignity prescribing that people deserve respect in their own right (Crane & Matten, 2004). Although this is also acknowledged by a number of HRM and industrial relations theorists (see e.g., Budd & Bhawe, 2008; Guest, 2007; Heery *et al.*, 2008; Legge, 1998; Paauwe, 2004), only a few authors such as Paauwe (2004) and Greenwood (2013) advocate a shift in emphasis of HRM toward employee-oriented CSR. They contend that the employment relationship as shaped by HRM should not be constructed on exclusively rational economic considerations but also on moral values which reflect, for instance, the realisation that employees' lives are extremely affected by their jobs since they spend a large portion of their life at work. Heery *et al.* (2008) signal increasing attention for the role of values and social justice in industrial relations research in response to the advance of the neo-liberal approach to industrial relations by governments and politics.

2.2.3 The stakeholder view of the firm

In the discussion regarding CSR, an important issue is the question to whom business should be responsible. The term corporate social responsibility embodies

the concept of responsibility to society. However, responsibility to society is difficult to operationalise if only because society consists of groups of people with conflicting interests. Clarkson (1995), therefore, argues that corporate social responsibility should be analysed by investigating the management of the firm's relationships with their stakeholders. After all, stakeholder theory allows a specification to whom business is responsible (Wood, 1991). In this thesis, the stakeholder perspective of the firm as introduced by Freeman (1984) is best suited to answer the responsibility question because the stakeholder perspective enables identification of the groups that affect or are affected by the actions and behaviour of companies. This perspective is also based upon the observation that the stakeholder perspective has developed into the most influential theoretical perspective in the CSR landscape (Branco & Rodrigues, 2007; Lee, 2008; Margolis & Walsh, 2003). According to Kroon and Paauwe (2013), stakeholder theory is excellent suited to assess CSR in employment relationships given its emphasis on employees' ethically-based rights to freedom, well-being and equality.

Stakeholder theory began to develop in the 1980s as an innovative approach to strategic management that formed a counterpart to the then dominant management theories based on neoclassical economics in which shareholders were perceived as the centre-point of the enterprise (Brickson, 2007; Kochan & Rubinstein, 2000). In his seminal book 'Strategic Management: A Stakeholder Approach' (1984), Freeman argued that the existing strategic management theories were insufficiently capable of incorporating changing relationships with both internal and external stakeholder groups in their analyses. These changes necessitated a much deeper comprehension of possible stakeholder motives, requirements, and interests driving their relationship with the firm. This critique on 'traditional' strategic management theories also extended to the fields of industrial relations and HRM. Freeman (1984) signalled changes in the employment relationship which demanded new management attitudes towards and approaches of individual employees as well as to unions and government.

Donaldson and Preston (1995) argue that stakeholder theory comprises three shells:

1. normative,
2. instrumental, and
3. descriptive.

Normative stakeholder theory represents the innermost shell and, thus, the core of stakeholder theory. It explores whether stakeholder groups other than shareholders

could have an interest in the company because they are affected by its actions and objectives and, thus, should be paid particular attention. This requires the explicit and implicit incorporation of values in conducting business (Van Buren, 2005). Instrumental stakeholder theory analyses which stakeholders other than shareholders affect the company's actions and objectives and how this influences the company's performance. Finally, descriptive stakeholder theory examines whether and to what extent managers pay attention to and act in accordance with stakeholders' interests (Donaldson & Preston, 1995). For this thesis, all three components are relevant. The normative base is determined by the owner-manager's other-regarding values, i.e., I research to what extent owner-managers consider employees as rightful stakeholders whose needs and interests should to be taken into consideration in the company's strategies and activities. The instrumental shell consists of the inquiry into employee power: to what extent are employee KSAs considered as essential to firm performance and to what extent is employee power supported by trade unions and government. Finally, I describe the actual treatment of employees as stakeholders by owner-managers.

Since the separation of economic and social company objectives is not relevant in stakeholder theory, the central issue – survival of the firm – is not only determined by and dependent on shareholders but also on other groups of stakeholders such as employees (Lee, 2008). Van de Ven and Jeurissen (2005) even maintain that survival of the firm is not only an instrumental but also a significant moral objective since so many different stakeholder groups possess legitimate interests in the firm and, thus, are dependent on the firm. Stakeholders form expectations of company behaviour, experience the effects of company behaviour and, in the end, evaluate the outcomes of company behaviour in terms of their previously formed expectations (Wood & Jones, 1995). Managing stakeholders, therefore, requires the capability of analysing stakeholders' requirements and interests in relationship to the firm. Although management may have a different perception of a particular stakeholder group's interest than that stakeholder group itself, effective stakeholder management demands moral responsibility for acting in accordance with the stakeholder group's perception of its interest (Freeman, 1984). This implies that corporate social performance can be assessed in terms of how well the company meets the expectations of its various stakeholder groups (Branco & Rodrigues, 2007).

2.2.4 Stakeholder identification and prioritisation

Depending on company objectives and governance systems and processes, firms can be arrayed along a continuum ranging from exclusively focussing on shareholder value maximisation to pursuing multiple objectives of various stakeholder groups (Kochan & Rubinstein, 2000). However, from the firm's perspective, the various stakeholder groups are not equally important. In this respect, Clarkson (1995) distinguishes between primary and secondary stakeholders. Primary stakeholders are stakeholders "without whose continuing participation the corporation cannot survive as an ongoing concern" (Clarkson, 1995, p. 106). Secondary stakeholders, in contrast, are not essential to the firm's survival. This distinction is relevant considering that it is physically impossible for managers to pay equal attention to all of the firm's stakeholder groups. This implies the development of criteria in order to decide on which stakeholder groups managers should focus.

Mitchell *et al.* (1997) argue that *identification* of stakeholders is a normative issue while descriptive theory based on observing management behaviour explains the *salience* of the various identified stakeholder groups to management. Stakeholder salience is "the degree to which managers give priority to competing stakeholder claims" (Husted & Allen, 2007, p. 349). Mitchell *et al.* (1997) describe stakeholder salience as being a function of three attributes:

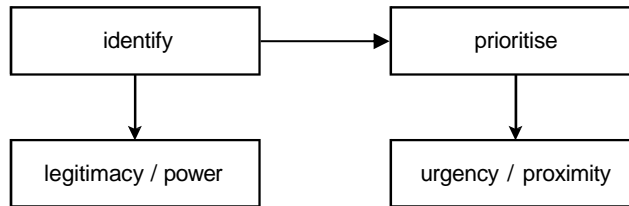
1. Power as the stakeholder's perceived capacity to influence an organisation's performance;
2. Legitimacy as the organisation's perception of stakeholder actions as desirable, proper, or appropriate; and
3. Urgency as the perception of the degree to which stakeholder claims demand immediate attention due to their time sensitivity and criticality to stakeholders.

Driscoll and Starik (2004) add proximity in a geographical and/or institutional sense as a fourth attribute influencing stakeholder salience.

In Figure 2.2, these attributes of stakeholder salience are divided into two groups. Legitimacy and power are the most significant attributes as they determine whether owner-managers consider individuals and groups, e.g. employees, sufficiently important to be recognised as stakeholders (Neville *et al.*, 2011). Legitimacy and power collectively comprise the salience construct in the conceptual model. Owner-managers employ the urgency and proximity attributes to establish the rela-

tive priority of stakeholder groups. If the owner-manager, based on the perceived salience of employees, decides to introduce employee-oriented CSR, the manager is expected to do so first in the home country on the basis of relative urgency and proximity of home and host country employees.

Figure 2.2 The role of stakeholder attributes in stakeholder management



Stakeholder power is primarily constituted by the firm's dependence on the resources provided by the stakeholder. Employee resource power consists of their KSAs. Stakeholders can decide to cooperate with or oppose the company with regard to the provision of resources (Husted & Allen, 2007). Legitimacy, according to Santana (2012), is constructed of three elements:

1. the legitimacy of the stakeholder as an entity;
2. the legitimacy of the stakeholder's claim; and
3. the legitimacy of the stakeholder's behaviour directed at enforcing the claim.

Salience is strongest if the stakeholder group is considered legitimate in all three aspects (Agle *et al.*, 1999). Neville *et al.* (2011) explicitly argue that the legitimacy attribute should be interpreted morally. Jones *et al.* (2007) as well as Agle *et al.* (1999) reason that managers characterised by relatively strong other-regarding values assess stakeholder salience in a different manner than managers with predominantly self-regarding values. With respect to urgency, time sensitivity indicates the degree to which postponement of addressing the claim is unacceptable to the stakeholder. Criticality reflects the claim's significance to the stakeholder (Mitchell *et al.*, 1997). Driscoll and Starik (2004) posit that physical proximity can be as important to stakeholder relations as urgency. Being in the same location much of the time in close interaction may foster the inception of stakeholder relations.

2.2.5 The relationship between stakeholder theory, HRM and industrial relations

Employees are primary stakeholders of the firm since, without employees, there is no company (Hillman & Keim, 2001). Usually, they are the company's most essential resource, they represent the firm externally, and taking a job requires employees to make significant investment in terms of training or of being required to move geographically to another location. To employees, their job is not only the foundation of their economic livelihood but also an opportunity to develop social relationships (Crane & Matten, 2004; Greenwood & De Cieri, 2007; Van Buren, 2005). Otherwise stated, employees both affect and are affected by the company to a very substantial extent and this, therefore, entitles them recognition as primary stakeholders from an instrumental and also from a moral perspective. This justifies employees to pursue their individual interests and to be included in the decision-making that affects their interests (Greenwood & De Cieri, 2007). This implies that stakeholder theory and the industrial relations perspective share the belief that the interests of the firm and the employees can diverge (Greenwood, 2013). I argue that the key differences between the two are the relative weight of power and management's other-regarding values in their argumentation. The industrial relations perspective emphasises the influence of the power balance in the employment relationship on whether management intends to further employee interests or their own interests (Greenwood & De Cieri, 2007). In contrast, the stakeholder perspective stresses the role of management's other-regarding values in deciding to what degree employees' needs and interests should be met insofar that these needs and interests diverge from the firms' needs and interests (Greenwood, 2013).

In the industrial relations perspective, the character of the employment relationship – cooperative or antagonist – and the power balance determine whether employees intend to cooperate with or oppose the company in their efforts to affect the distribution of the firms' rent (Bryson *et al.*, 2006; Heery *et al.*, 2008; Van den Berg *et al.*, 2011; Wigboldus *et al.*, 2008). Employees can wield their power directly or indirectly, for instance, through trade unions and works councils (Dawkins, 2010; Jirjahn & Smith, 2006). The power balance between management and employees results in four possible characteristics of employee relations arrangements:

1. employee power,
2. high interdependence between employees and the firm,

3. low interdependence between employees and the firm and, finally,
4. firm power.

Each arrangement is characterised by specific employee strategies for achieving their objectives within the firm (Frooman, 1999).

In the stakeholder perspective, contributing strategic resources to the firm and experiencing cost in the event of firm failure are the foundation of the morality or legitimacy of employee claims to stakeholder status (Kochan & Rubinstein, 2000). Employees' dependence on the firm for their economic livelihood also lends urgency in the sense that this represents a critical claim of employees to the firm (Mitchell *et al.*, 1997). Their position, therefore, deserves special attention considering that employees may experience significant negative effects of the predominant shareholder beliefs in the form of the consequences of downsizing and outsourcing decisions, stagnation in actual wages, increase in flexible labour contracts, decline of union power, and adverse effects on physical as well as mental health (Kochan & Rubinstein, 2000; Pfeffer, 2010).

In contrast to the stakeholder and industrial relations perspectives, the (strategic) HRM literature is based predominantly on the perspective that the interests of the firm and its employees coincide (Gooderham *et al.*, 1999; Greenwood & De Cieri, 2007; Ramsay *et al.*, 2000). With regard to the HRM function, the longstanding impression maintains that it also includes taking responsibility for employee welfare. However, the assumption of corresponding interests led to the adoption of HRM strategies and practices that actually worked to the detriment of employee interests. Otherwise stated, the concept of corresponding interests often functions as a fraud which conceals the unilateral pursuit of company interests (Van Buren, Harry J., III *et al.*, 2011). Related to this, Harney and Dundon (2006) contend that the personnel practices of a company reflect the power distribution within that company. Employee power is dependent upon employees' KSAs. This signifies that management discriminates in their HRM practices between various categories of employees depending on how important these categories' KSAs are for achieving the firm's objectives (Legge, 1995; Lepak *et al.*, 2007). This is evident, for instance, in the level of employment security that the various employee categories enjoy. On the other hand, the extent to which HRM practices meet the needs and interests of various groups of employees is dependent upon the support that employees can bolster from unions and government regulations.

Thus, the distinction between employee-oriented CSR, based on the acknowledgement of possibly diverging interests between employers and employees as defended in stakeholder theory, and HRM, based on the notion of corresponding interests, consists of the acknowledgement of the employees' right to pursue their individual interests even if these are not directly congruent with company interests. Such a genuine management commitment to employees based on other-regarding values elicits reciprocative employee behaviour resulting in positive company outcomes. HRM-inspired, self-regarding management commitment to employees carries the risk of opportunistic behaviour if such behaviour, at some point in time, better accommodates the company's interests. Opportunistic behaviour towards employees is exemplified by overseas relocation of production or flexibilisation of employment relations which comes at the expense of current employees and, therefore, is hardly amenable for maintaining trusting, cooperative relationships (Jones, 1995). Downsizing, in particular, places pressure on employee commitment. When decision-making procedures, employee outcomes, and the arguments for downsizing are not perceived as fair, employee commitment and effort will suffer (Van Buren, 2005). Nonetheless, if a company demonstrates a capability of responding effectively to employees' needs and interests, this 'social responsiveness' capability can be considered a source of competitive advantage according to the resource-based view of the firm (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003).

2.3 EMPLOYEES AS POTENTIAL SOURCE OF COMPETITIVE ADVANTAGE: STRATEGIC HRM

2.3.1 Strategic HRM and the resource-based view of the firm

The focus of strategic human resource management is on shaping the exchange relationship between an organisation and its employees in such a way as to attain sustainable competitive advantage for the organisation (Lado & Wilson, 1994; Paauwe, 2004). For this reason, the resource-based view of the firm (RBV) is the most influential business strategy theory underlying strategic HRM, in relationship to the workforce, as a potential source of competitive advantage. The essence of the RBV is the concept that sustainable competitive advantage is dependent upon firm-specific resources and capabilities (Barney, 1991). Capabilities refer to the capacity of management to organise resources in such a way that it results in competitive advantage (Grant, 1991).

Firm-specificity is defined as strategic resources and capabilities being valuable, rare, inimitable, and organisation-oriented (VRIO). These resources retain value if they assist the firm in exploiting market opportunities and/or counter external threats. Resources are rare when supply is insufficient to bring about perfect competition and are inimitable when at least one of three conditions is fulfilled.

1. Based on consecutive management decisions at various points in the company's lifetime, the development of a particular resource must have followed an idiosyncratic historical path.
2. The relationship between the particular resource and competitive advantage must be difficult to understand or, stated otherwise, is causally ambiguous which implies tacitness of resources. Such resources are constructed by people's skills and experience acquired over time.
3. The resource must be socially complex, i.e., so many people must be involved in coordinating the resources and capabilities concerned that no one has an exact insight into how this coordination precisely works.

Finally, a firm must be organisationally capable of extracting full profit from the particular resource (Barney, 1991; Barney, 1995; Lockett *et al.*, 2009). Sustainable competitive advantage is suggested to be evidenced in the form of organisational rents based on the organisation's strategic resources and capabilities and appropriated by the organisation (Amit & Schoemaker, 1993).

Makadok (2001) contends that capabilities are a firm's most potentially significant source of competitive advantage because of their historically grown embeddedness in the organisation and its processes and because capabilities enhance the productivity of the resources they organise. This is supported by empirical research which demonstrates that resource combinations and capabilities seem to provide better explanations than single resources can for performance differences (Lockett *et al.*, 2009). Capabilities are information-based tangible or intangible organisational processes that cannot be overtly observed and, therefore, are difficult to imitate by competitors (Amit & Schoemaker, 1993; De Saá Pérez & García Falcón, 2002). These capabilities, due to the organisational embeddedness and the equivalent social complexity, are nearly impossible to transfer to another organisation without simultaneously transferring ownership of that organisation (Amit & Schoemaker, 1993; Makadok, 2001). Examples of capabilities are providing service, generating innovations, encapsulating flexibility into the manufacturing process, etc. (Amit & Schoemaker, 1993). This clearly demonstrates that the quality and commitment of the people who actually perform the tasks connected to these capabilities are eventually decisive in determining the strength of competitive advantage.

2.3.2 People as potential source of competitive advantage

Firms are unique and, thus, heterogeneous because of their distinctive capabilities in organising resources. Organising resources for sustainable competitive advantage requires management obtaining optimal information from employees on the exploitation of existing and possible future resources. Employees, however, will only be willing to provide the required information if they can trust the company not to abuse this information. One manner of achieving this is the inclusion of employees in relevant decision-making processes. Trust between labour and management does not emerge overnight; it takes a significant amount of time to develop. It cannot be bought in the market nor easily imitated by competitors. From such resources and capabilities, companies are afforded the ability to construct sustainable competitive advantage as they are path dependent, ambiguous, and socially complex (Amit & Schoemaker, 1993; Barney, 1995).

Although employees' knowledge, skills, and abilities are a firm's human capital, employees own that human capital. Therefore, it is critical that firms motivate employees to exploit their human capital to the best advantage of the firm (Branco & Rodrigues, 2006; Gottschalg & Zollo, 2007). In this respect, it is important to realise that contracting for the provision of labour services is essentially different for employees than for employers. While employers just invest money in labour services for a monetary return, employees consider their employment as an investment of a significant portion of their lives with the earned income enabling both a material and immaterial livelihood (Blau, 1989). This implies that an employee's mobility is limited by the – probably substantive – transaction costs of moving from one type of employment to another (Wright *et al.*, 1994). These transaction costs consist of search costs for locating new and attractive employment opportunities, uncertainty about success in that new employment, and social costs linked to the disruption to both the employees and their family's social networks (Boxall, 1998; Hoopes *et al.*, 2003).

People are also a significant potential source of competitive advantage because they are difficult to replace by other resources. An important aspect here is that, in contrast to other resources, people need not become obsolete due to their learning capacity. A second aspect is that people can be exploited for various production technologies producing products and services for diverging markets. That a firm's employee population in its entirety may be a potential source of competitive advantage is often disregarded since its contribution to competitive advantage is

often covert and, therefore, rather invisible (Wright *et al.*, 1994). However, firms are then confronted with the question of how to equip their employees with the relevant knowledge and skills and how to secure their cooperation in achieving the objectives of the firm. Employees subsequently face the problem of how much to invest in the acquisition of relevant knowledge and skills and to what degree to cooperate (Coff, 2010; Hall & Soskice, 2001).

In the perception of many authors, (e.g., Barney & Wright, 1998; Boxall, 1998; Coff & Kryscynski, 2011; Huselid, 1995; Pfeffer, 1994), shaping people into a source of competitive advantage is becoming increasingly important since technological innovations are being imitated at an ever faster rate due to modern information technology and, therefore, form only a transient source of competitive advantage (Coff, 1997). People's capacity to acquire new knowledge is a key issue here. In this respect, Nonaka and Takeuchi's (1995) distinction between explicit and implicit or tacit knowledge is significant. Explicit knowledge is codified knowledge that can be easily transferred while tacit knowledge is only present in the minds of the persons possessing that knowledge. Consequently, tacit knowledge can be transferred much less easily than explicit knowledge, obviously, due to its restriction to only the owner which makes it less accessible to others. This problem is especially prevalent in SMEs since the lower degree of labour division requires less codification of routines and procedures, and knowledge is based more on experience than on formal education (Nooteboom, 2004).

2.3.3 The role of strategic HRM in turning employees into an actual source of competitive advantage

The previous information implies that the manner in which employees are managed, to a large extent, determines whether potential advantage is transformed into actual advantage. Consequently, there is a vast amount of literature discussing the relationship between human resource management and firm performance (e.g., Amit & Belcourt, 1999; Barney & Wright, 1998; Becker & Gerhart, 1996; Boselie *et al.*, 2001; Coff, 1997; De Saá Pérez & García Falcón, 2002; Huselid, 1995; Lado & Wilson, 1994; Lee & Miller, 1999). However, there is not yet any consensus in the literature about content, nature, and meaning of strategic HRM (Guest, 1999). This demonstrates, amongst other things, the fact that, essentially, strategic HRM models can be divided into two categories:

1. one that determines people purely as a means to achieve the company's objectives and
2. the other maintaining that people will work more effectively if companies pay attention to their needs and interests.

In the literature, these categories are sometimes designated as 'hard' and 'soft' HRM (e.g. Edgar & Geare, 2005; Gooderham *et al.*, 1999) or high-involvement and traditional HRM (e.g., Bae & Lawler, 2000).

The hard model is dominated by considerations of economic rationality because the effects on firm performance are of prime importance in this aspect. Just as with other resources, human resources are deployed in such a way as to ensure the greatest achievable efficiency and effectiveness of the firm's production process (Edgar & Geare, 2005; Gooderham *et al.*, 1999). This concept of strategic HRM is built on the rationality assumptions of neoclassical economics according to which management exhibit optimising behaviour when achieving company objectives (Legge, 1978). In the preconception of hard HRM, the exchange relationship between organisation and employee is purely economic in nature involving only money, capacity for work, and time (Paauwe, 2004). Gooderham *et al.* (2004) equate hard HRM with the so-called Michigan Model of HRM developed in 1984 by Fombrun and colleagues. The central tenet in the Michigan Model is that a cohesive fit between HR strategy and business strategy is necessary to effectively achieve overall organisational goals. The exploitation of hard HRM, therefore, presupposes considerable management autonomy with regard to unilaterally establishing labour conditions (Gooderham *et al.*, 1999). Hard HRM relies on relatively low labour costs, low labour skills, and high external flexibility through layoffs or temporary work. Employee participation is only minimally existent, and long-term investment in skill development is irrational from the perception of both employees and management (Jürgens & Krzywdzinski, 2009).

The Michigan Model sharply contrasts soft HRM. Gooderham and colleagues (2004) associate soft HRM with the so-called Harvard Model of HRM developed in 1984 by Beer and colleagues. In this model, the exchange relationship between organisation and employee has economic as well as social aspects. The central argument in the Harvard Model is that organisational success is crucially dependent on employee commitment since employees are the critical resource that enables the firm to create value from various resources. Therefore, HRM strategies should aim for building such commitment as this commitment advances firm

performance when it stimulates employees to employ their individual perceptions and expertise to solve organisational issues.

Employees, however, develop commitment only as an act of reciprocation, i.e., only when they perceive that the organisation is committed to them will they subsequently demonstrate commitment to the organisation (Allen *et al.*, 2013). Consequently, in soft HRM, promotion of employee well-being is determined as conditional for achieving positive effects on organisational performance. Employers are considered to have an obligation of balancing the organisation's requirements and interests with those of their individual employees (Edgar & Geare, 2005; Gooderham *et al.*, 1999). Thus, the exchange relationship between the organisation and employee comprises, apart from labour, money and time as well as aspects such as learning, voice, participation, and well-being (Paauwe, 2004). Soft HRM, therefore, is much more in accordance with employee-oriented CSR than it is with hard HRM. This implies that many practices developed and employed by soft HRM can be utilised as well in an employee-oriented CSR framework. The essential difference is that soft HRM is built upon employee power whereas employee-oriented CSR is founded upon management's other-regarding values.

Soft HRM systems are characterised by broad and functionally flexible jobs, employment security, employee participation, internal promotion opportunities, and extensive training facilities (Bae & Lawler, 2000; Beer *et al.*, 1984; Jürgens & Krzywdzinski, 2009; Lado & Wilson, 1994). Lado and Wilson (1994) argue that commitment does not so much emerge from exchange of economic resources between employer and employee as it does from the exchange of symbolic resources such as trust, status, and firm-specific knowledge, skills, and abilities. They contend that, whereas economic resources result in a zero-sum game for the exchange parties, symbolic resources create value for both parties. This implies that the organisational climate, an important aspect of employee-oriented CSR, results from the exchange of symbolic resources. Symbolic resources derive their significance and effect from the reciprocal nature of the exchange between the parties involved. This may subsequently positively affect the way employees manage their relationships with the firm's external stakeholders including customers and suppliers (Lado & Wilson, 1994).

Up to now, needs and interests of employees with respect to HRM practices have received only minimal empirical attention in academic research on strategic

HRM (Edgar & Geare, 2005; Guest, 1999; Legge, 1998). However, Edgar and Geare (2005) argue that, if soft HRM is to be effective, its practices must be important to employees as well. Even in the case of hard HRM, employee opinions are relevant since dissatisfied employees are likely to negatively affect firm performance. Therefore, in order to develop improved insight into the way HRM practices actually perform, employee viewpoints must be incorporated. After all, employers, when asked about HRM effectiveness, do not evaluate this from their own experience but, instead, from their experience as a manager (Edgar & Geare, 2005). An important additional caveat with regard to studying HRM systems is that, in most organisations, employee relations are not governed by one single system. Various groups of employees such as managers, production workers, administrative staff, and technical specialists are treated differently with regard to type and level of pay, job security, degree of work autonomy and work pressure, and training opportunities. Therefore, it is of vital importance to identify the employee group to which specific practices are directed (Boxall *et al.*, 2011).

2.3.4 The link between HRM and firm performance

In response to strategic HRM's suggestion of a positive effect of the correct HR policies and practices on firm performance, significant research has been conducted to test this link. A key issue signalled in this research is that there is no direct link between HRM and firm performance but that HRM strategies, policies, and practices affect firm performance through intermediate outcomes. This problem is referred to as the 'black box' (Becker & Huselid, 2006; Boxall *et al.*, 2011; Guest, 2007; Katou & Budhwar, 2010; Ramsay *et al.*, 2000). The pressing question is how the logic of the processes occurring in the black box should be specified (Becker & Huselid, 2006). It is not clear how HRM practices affect organisational outcomes and whether synergies between various practices exist with regard to their combined effect on organisational performance (Delaney & Huselid, 1996). To date, only a very limited number of studies have addressed the question of *how* high-performance HR practices actually contribute to firm performance compared to the number of studies dealing with the question of *whether* these practices contribute to firm performance (Bae *et al.*, 2011). This is related to the observation in Section 2.3.3 that the great majority of research into the HRM-performance link does not incorporate employee experiences of HRM practices.

There is a consensus that HRM strategies affect organisational performance through three types of outcomes on the employee level: abilities, motivation, and opportunity, the so-called AMO-framework (see e.g., Becker *et al.*, 1997; Boxall *et al.*, 2011; De Saá Pérez & García Falcón, 2004; Huselid, 1995). Wright and Nishii (2007) propose that the black box between HR practices and firm performance can be described as a set of causal relationships:

1. intended HR practices lead to
2. actual HR practices that, in their turn, lead to
3. perceived HR practices that evoke
4. employee reactions which finally affect
5. organisational performance.

Employees decide for themselves, in varying extents, how to use their time and talents at work. Wright and Nishii's model emphasises the possibility of a major gap between management's professed intentions and management's actions which could possibly undermine employees' attitudes and behaviours and result in negative effects on organisational performance (Boxall *et al.*, 2011). Boxall and colleagues (2011) argue that a firm's management intention is to create a specific organisational climate that they think is best adapted to the organisation's objectives. Such a climate can be perceived as a key mediator between HR practices and organisational outcomes.

With regard to strategic HRM's consequences for employee outcomes of the employment relation and employee well-being, two contrasting views can be distinguished:

1. the 'mutual gains' perspective and
2. the 'conflicting outcomes' perspective (Van de Voorde *et al.*, 2012).

Employee well-being consists of three dimensions – happiness, health, and relationships. The mutual gains perspective is related to soft HRM. In this aspect, employee-centred and empowering HR practices result in positive employee outcomes and positive effects on employee well-being. Employees reciprocate this in their behaviour, for instance, by taking initiative and exhibiting loyalty. This supposedly leads to positive operational outcomes for the firm such as higher productivity, lower absenteeism, and lower turnover (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003; De Saá Pérez & García Falcón, 2004).

In contrast, Ramsay and colleagues (2000) argue in accordance with the conflicting outcomes perspective that, though the results of their empirical study confirm the relationship between high-performance work systems (HPWS) and measures of workplace performance, the positive performance outcomes may be due to work intensification rather than to positive employee outcomes. They have ascertained mixed results with regard to employee outcomes. Single high-performance practices appear to lead to positive results for the related employee outcomes such as greater job discretion as a result of employee empowerment. However, the system as a whole also produced negative outcomes such as greater job strain which negatively affect employee well-being.

These findings are partially in accordance with the argument presented by critics of high-performance HRM that positive firm outcomes are achieved at the expense of employees through increased workload, work-related stress resulting from work intensification and time pressures, and greater employment insecurity (Frost, 2008; Guest, 2007; Harley *et al.*, 2010). According to Guest (2007), the primary intention of high-performance or high-involvement HRM is to exploit the capabilities of the firm's key asset, i.e., human resources, as fully as possible without much attention for possible negative effects or without providing employees with an independent voice. The irony here is that the approach claiming people are the most important asset does not treat them as people. Guest (2007) wonders whether such an approach can be considered ethical. This can be related to Frost's (2008) argument that HPWS is not sustainable in the long run because of the high levels of trust and cooperation required to accomplish it. If people begin to feel exploited, their levels of trust and cooperation may deteriorate.

2.4 INSTITUTIONALISM

2.4.1 Values, varieties of capitalism and CSR

Aguilera and colleagues (2007) argue that corporate governance systems as part of the institutional environment affect the motives for engaging in CSR. The Anglo-Saxon system is characterised by its emphasis on shareholders as the dominant stakeholder group and is directed at short-term profitability as a consequence of the logic of financial markets (Reynaud *et al.*, 2007). Values in this context

concern the responsibility to shareholders to maximise profits (Waldman *et al.*, 2006). Shareholders tend to have a short-term view leading to an instrumental or utilitarian interpretation of CSR, i.e., in particular, those CSR measures are advanced that directly increase competitiveness. Scherer and Palazzo (2011) even contend that CSR in the Anglo-Saxon model, by necessity, is dominated by instrumental motives because, based on this model, companies are determined as private actors whose decisions and activities are of no concern to society as long as they do not transgress law or morality. Marens (2012) illustrates this by making reference to the simultaneous engagement in CSR and the self-enrichment of the CEOs of many corporations.

In the Rhineland model, in contrast, stakeholder thinking dominates management's institutional environment resulting in long-term survival as the primary company objective. In order to achieve this objective, the needs and interests of organisational stakeholders are taken into consideration through an institutionalised process of social responsiveness (Reynaud *et al.*, 2007). This social-responsiveness process has, as its normative base, the legitimacy of stakeholder interests (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003), though this does not exclude instrumental motives if competitiveness is fostered in this manner (Aguilera *et al.*, 2007). In this respect, values involve maintaining positive relations in a broader range of stakeholders, employees being among them, since these stakeholders can directly affect firm survival (Waldman *et al.*, 2006). Management commitment to these values generates stakeholder commitment and trust (Caldwell *et al.*, 2011; De la Cruz Déniz-Déniz & De Saá-Pérez, 2003).

The distinction between the Anglo-Saxon and Rhineland models is also plainly obvious in another important categorisation of CSR in the framework of this thesis, specifically, as explicit and implicit CSR (Matten & Moon, 2008). Explicit CSR entails that companies explicitly assume responsibility for societal issues with the employment of voluntary programs and strategies. Explicit CSR is prevalent in the United States since social and employment protection is far less encompassing there than in Europe, offering greater opportunities for corporate discretion in this respect. Implicit CSR, on the other hand, is comprised of societal norms, values, and rules guiding companies on how to address stakeholder issues. It is dominant in the Rhineland model countries of continental Europe where it is incorporated into companies' expected role within the broader institutions of society and, thus, is collectively, rather than individually, based. Whereas companies engaging in explicit CSR communicate extensively about their activi-

ties to the outside world, firms engaging in implicit CSR do not communicate this since it is considered normal practice (Matten & Moon, 2008).

2.4.2 Economic and normative rationality

The resource-based view – as embodied in strategic HRM – about employees as a potential source of competitive advantage must be complemented by an institutional perspective. Oliver (1997) claims that the resource-based view has neglected the institutional context of decisions related to selecting and employing resources despite the heavy impact of the institutional context on nature and content of these decisions. She distinguishes between economic and normative rationality with respect to managerial decision making. Economic rationality refers to profit maximisation based on calculated self-interest while normative rationality is based on social legitimacy considerations with regard to both the internal and external institutional environment of firms (Amit & Schoemaker, 1993; Greenwood *et al.*, 2008; Oliver, 1997). Oliver's (1997) concept of normative rationality can be linked to Granovetter's (1985) observation that the neglect of social relations by economic rationality raises the question of how economic action can be safeguarded from mistrust and malevolence. Granovetter argues that, since most economic behaviour is embedded into networks of interpersonal relationships, managers will not only strive to achieve economic goals but will also strive for status, social approval, and power which are normatively determined.

Internally, the norms, values, and traditions – or organisational heritage – of the firm form a benchmark for decision making. However, this may lead to cognitive sunk costs that hinder optimal resource selection and utilisation. Cognitive sunk costs consist of the social and psychological barriers resulting from established and proven routines that block economically rational consideration of alternative ways of performing tasks. Long-tenured employees, for example, are deeply embedded in their firm's history and routines which may lead to the development of blind spots for possible inadequacies or even aversion to introducing new routines that might repair inadequacies. In this manner, core competencies can transform into core rigidities.

Externally, firms strive for acceptance by means of conformity to the regulatory environment and to general expectations in a particular societal context. Firms

may not select or imitate resources and capabilities lacking societal acceptance. Such a pursuit of social legitimacy may reduce firm heterogeneity in a particular national institutional environment. Consequently, in decision-making processes, economic and normative rationality are inextricably interwoven. In this context, the normative element consists of the decisions that are value-laden due to their path dependency and their institutional context (Oliver, 1997). This applies, in particular, for the ways in which firms deal with and treat their employees. To specify just one example, in many countries, firms are obligated to implement minimum wage laws or to recognise trade unions (Amit & Schoemaker, 1993; Boxall *et al.*, 2011).

Legitimacy is a central issue in institutionalist theory (Pacheco *et al.*, 2010). Suchman (1995, p. 574) defines legitimacy as “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. Consequently, legitimacy is of symbolic value for firms since it provides the firm with a stamp of approval from the perception of outsiders (Adler & Kwon, 2002; Scott, 2001). The interactions of individuals and organisations are guided by institutions that impose certain uniformity on behaviour. Consequently, in their efforts to acquire legitimacy, firms strive to emulate the dominant norms, traditions, and values in their environments which eventually leads to homogeneity among firms with respect to the types of organisational structures and activities (Oliver, 1997).

The above information implies that the function of institutionalist theory is to assist in comprehending how the environment affects the functioning of organisations (Campbell, 2006; Matten & Moon, 2008; Mitchell *et al.*, 1997). Economic behaviour is not only determined by economic optimisation motives but also by motives of social justification and social obligation (Alas & Tafel, 2008; Oliver, 1997). Firms’ institutional context consisting of rules, norms, and beliefs constrains their liberty to select and employ resources at will, in particular human resources. On the other hand, firms may be capable of dealing with institutional constraints and opportunities in such a way that the competitive advantage provided by their internal resources and capabilities is even strengthened (Jackson & Deeg, 2008; Oliver, 1997). Since institutions affect the way firms treat their stakeholders, multinational enterprises must take into consideration the relevant institutional differences between home and host country when transferring practices to foreign subsidiaries (Campbell, 2006).

2.4.3 Institutions and institutionalist perspectives

Unfortunately, the concept of institutions is difficult to clearly define since the beliefs of various authors widely diverge on the question of which societal phenomena should be classified under this definition (Scott, 2001). As a result, definitions of institutions abound in literature. The common denominator is that institutions govern human behaviour by means of placing constraints on behaviour (see e.g., Bresser & Millonig, 2003; Nooteboom, 2007; North, 1991; Scott, 2001). Additionally, many authors consider institutions as not only constraints on but also enablers of human behaviour (e.g., Djelic & Quack, 2008; Scott, 2001). I use Scott's (1995, p. 33) authoritative and often quoted definition: "Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers – culture, structure, and routines – and they operate at multiple levels of jurisdiction".

In Scott's (1995) view, each institution consists of three pillars. The regulative pillar constitutes explicitly monitored and sanctionable formal and informal rules whereby conformity is imposed by coercive pressures. Second, the normative pillar consists of norms and values that define desirable or appropriate behaviour (Bresser & Millonig, 2003). Values represent what is desirable, and norms specify how values should be pursued (Rokeach, 1970; Scott, 2001). Since compliance with norms and values is believed to be a moral obligation, observance is enforced by normative pressures. Finally, the cognitive pillar comprises the way in which individuals perceive and interpret – in other words, construct – reality. This social construction of reality is based upon the taken-for-granted values and norms that determine individuals' reactions to external stimuli. Compliance is produced by cognitive pressures entailing that an alternative type of behaviour is simply not conceivable (Bresser & Millonig, 2003; Scott, 2001). A potential disadvantage, however, is that practices, once institutionalised and internalised, are difficult to change (Greenwood *et al.*, 2008).

Several widely diverging perspectives on the nature and functioning of institutions exist. This is related to the fact that institutionalist perspectives are nurtured theoretically by various social science disciplines, notably economics, sociology, and political science (Jackson & Deeg, 2008). Within the framework of this thesis, the neo-institutionalist and national business systems approaches are the most relevant institutionalist perspectives. Despite, or rather, because of their differ-

ences, these two approaches are complementary (Jackson & Deeg, 2008; Preuss *et al.*, 2006; Tempel & Walgenbach, 2007) and can be collectively employed to explain transfer issues in the area of employee relations arrangements.

The sociology-based neo-institutionalist theory regards institutions as defining legitimate behaviour as being directed toward gaining access to resources and making organisational legitimacy the key issue. This leads to isomorphism of organisations (Gelbuda *et al.*, 2008). *Neo-institutionalism* studies the effects of institutionalised norms and values on individuals and organisations and assumes that these norms and values are often more important in determining economic behaviour than efficiency considerations (Bresser & Millonig, 2003; DiMaggio & Powell, 1983). Isomorphism is produced by coercive, mimetic, or normative pressures which can be linked to Scott's (1995) regulative, cognitive, and normative pillars, respectively (DiMaggio & Powell, 1983; Tempel & Walgenbach, 2007). Coercive pressures emanate from striving for legitimacy; mimetic isomorphism stems from imitating other organisations' structures and behaviours in order to cope with uncertainty; and normative pressures are related to the increasing professionalization of occupations expressed in norms, values, and rules that practitioners should adhere to (DiMaggio & Powell, 1983).

Bresser and Millonig (2003) make a useful distinction between two complementary approaches to the institutionalisation of organisational behaviour: macro-institutionalism and micro-institutionalism. Macro-institutionalism posits that institutionalisation of organisational behaviour originates from sources outside the organisation while micro-institutionalism locates these sources within the internal organisational environment. Macro-institutionalists emphasise the significance of conforming to external institutional pressures since this adaptation results in gaining the organisational legitimacy required to obtain resources. This causes organisations to become isomorphic with their institutional context. In the event that isomorphism undermines organisational efficiency, adherence to institutional requirements may assume a symbolic character, expressed in decoupling these symbolic structures from the structures influencing the organisation's efficiency (Greenwood *et al.*, 2008).

Micro-institutionalists study the effects of internal institutional pressures on managing resources and capabilities. The more the entrepreneur succeeds in institutionalising the desired structures and processes such that they become taken-for-granted by the members of the organisation, the more these desired structures and pro-

cesses will determine organisational members' behaviour and the more this behaviour becomes legitimated (Bresser & Millonig, 2003). Pacheco *et al.* (2010) consider the internal organisational environment as a focal point for institutional entrepreneurship (see Section 2.4.5).

The central theme of the *national business systems* approach is the manner in which the national institutional environment shapes the logic of economic life and economic organisation in a country and generates specific competitive advantages through complementarity of the various institutions. Complementarity entails that institutions reinforce one another. Firms solve their coordination problems in diverse areas, e.g., dealing with suppliers, labour, and financial needs, through functionally interdependent institutions. This results in different firm behaviour in various national business systems. Therefore, a country's business system affects how firms from other countries manage their subsidiaries in this country (Gamble, 2010; Jackson & Deeg, 2008; Tempel & Walgenbach, 2007; Whitley, 1999). National business systems can be categorised on the basis of, first, the relationship between owners and managers and the extent to which owners are involved in management; second, non-ownership coordination between firms; and, third, the way employment relations and the work itself are organised. With regard to this latter aspect, the level of employer-employee interdependence and the level of job discretion are especially key elements (Tempel & Walgenbach, 2007).

Crouch (1993) developed a categorisation of the industrial relations component of national business systems with the power of organised labour and centralisation of organised labour and capital as dimensions. This results in four systems:

1. neo-corporatism with strong labour (Nordic countries),
2. neo-corporatism with weak labour (the Netherlands, Germany),
3. contestational bargaining with strong labour (United Kingdom), and
4. pluralistic bargaining with weak labour (France).

Neo-corporatism is characterised by substantially centralised organised labour and capital while, in contestational and pluralistic bargaining systems, organised labour and capital are only weakly centralised. Hamann and Kelly (2008) argue that the categorisation of industrial relations arrangements by Crouch is relatively comparable with Hall and Soskice's (2001) distinction between liberal market economies

(LMEs) and coordinated market economies (CMEs).¹ CMEs are characterised by neo-corporatism while LMEs comprise systems with weakly centralised organised labour and capital. According to Hall and Soskice (2001), the characteristic discriminating between these two types of economies is the extent to which an economy relies on the market mechanism as opposed to the ‘institutional’ mechanism in managing the country’s economy (Jackson & Deeg, 2008).

Hall and Soskice (2001) view national business systems as being positioned along a continuum. LME markets, characterised by arms-length relations and strong competition, form the central instruments to coordinate economic activities supported by a legal system that is designed to compose and enforce formal contracts. Economic issues beyond market control are faced through hierarchies. Industrial relations are built on the axiom that the relationship between firm and employee is essentially a market relationship, i.e., the basis upon which employers organise their relations with labour. Consequently, firms have considerable autonomy in determining labour conditions, including extensive freedom to hire and terminate employment.

CMEs are characterised by – in addition to markets and hierarchies – the significant role of other institutions in coordinating economic activities by providing a platform for the exchange of information, monitoring behaviour, and sanctioning uncooperative behaviour. In the industrial relations arena, such institutions comprise strong trade unions and employer associations supported by regulatory systems that promote information-sharing and cooperation. Wages and other labour conditions are determined through collective bargaining agreements. Institutions such as works councils enable employees and employers to deliberate within firms (Hall & Soskice, 2001). Consequently, the level of discretion that management possesses in designing HRM practices and policies of their own preference is much greater in LMEs than in CMEs. This creates relevancy for the national business systems perspective in this thesis since its key issue is the international transferability of employee-oriented CSR.

However, problematic in the national business systems approach is that, to a great extent, it assumes homogeneity between and within sectors and neglects agency at the firm level (Gamble, 2010; Jackson & Deeg, 2008). Gamble (2010) argues that the national business systems approach may provide explanations for either whole-

¹ This distinction more or less matches the distinction between the Anglo-Saxon and Rhine-land models referred to in Section 1.2.

sale transfer or for no transfer but is less capable of producing explanations for hybrid outcomes of transfer or for partial transfer. Neither does it take account of what is particularly relevant when attempting to comprehend transitional institutional environments such as those in Eastern European countries that experience a transition process and manifest a broad deinstitutionalisation of once deeply embedded normative and cognitive institutions.

2.4.4 Institutional distance and transfer

Foreign subsidiaries of MNEs operate, in fact, in two institutional environments and must, consequently, acquire both internal legitimacy and external legitimacy; otherwise stated, they face ‘institutional duality’. Internal legitimacy implies that the structure, activities, and behaviour of the subsidiary must be approved by the parent company. The parent company’s practices, however, to a large degree, are imprinted by its home country institutional environment (Dickmann, 2003; Tempel *et al.*, 2006a). External legitimacy refers to the host country societal approval of the subsidiary’s structure, activities, and behaviour. Both legitimacy types are necessary for the subsidiary’s survival (Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991). It is plausible that internal legitimacy could result from following the parent company’s organisational blueprint for competitive advantage based on globally instituted practices (Kostova & Roth, 2002; Rosenzweig & Singh, 1991). Björkman and Lervik (2007) mitigate the internal/external legitimacy dichotomy by arguing that internal legitimacy may contribute to external legitimacy by promoting a common company culture, equity, and procedural justice between all of the MNE’s subsidiaries.

Consequently, subsidiaries’ personnel practices are also subject to isomorphic pressures from two sources, i.e., the parent company and the host country. Ferner and Quintillana (1998) distinguish four potential outcomes of the interaction between these two isomorphic sources.

1. A foreign subsidiary may comply with the headquarters’ pressures for company conformity (‘corporate isomorphism’).
2. A subsidiary complies with the arrangements and institutions in the host country (‘local isomorphism’).
3. Headquarters may undertake efforts to transfer elements from the home country business system to the subsidiary (‘cross-national isomorphism’).

4. MNEs may mimic best practices from competitors and subsequently diffuse these to the subsidiary ('global inter-corporate isomorphism').

Institutional differences between countries are ensconced within the concept of 'institutional distance' which integrates regulative, normative, and cognitive elements of institutions in measuring the relative distance between countries' national institutional environments in order to assess the relative difficulty with which organisational practices can be transferred from one country to another (Jackson & Deeg, 2008). Kostova (1997, p. 180) subsumes the national institutional environment under the term country institutional profile, which she defines as follows: "the institutional environment in that country defined as the set of all relevant institutions that have been established over time, operate in that country, and are transmitted into organisations through individuals". This definition implies that country institutional profiles may differ for the various types of practices to be transferred.

The concept of institutional distance indicates to what degree host country institutions – being different from home country institutions – directly and indirectly influence practice transfer. The indirect mechanism works through the values, norms, beliefs, and cognitions of the subsidiary's employees. A caveat is that host countries will not expect MNEs' subsidiaries to be completely isomorphic to domestic companies due to their foreign ownership (Kostova & Roth, 2002). Since organisational policies and practices tend to reflect the peculiarities of the home country institutional environment, transfer and adaptation of these policies and practices are affected by the magnitude of the institutional distance between home and host country (Kostova & Zaheer, 1999; Tempel *et al.*, 2006a). For instance, Brookes and colleagues (2011) ascertain that US multinationals must adapt their HRM practices to a greater degree in their subsidiaries in countries at the CME-side of the LME-CME continuum than in their subsidiaries in more LME-like countries.

A significant institutional distance between home and host country may induce conflicts between external and internal legitimacy (Tempel *et al.*, 2006a). Whether potential conflicts materialise depends, amongst other things, on the extent to which subsidiary and parent company are interdependent on each other's resources and capabilities (Oliver, 1991). Furthermore, greenfield establishments are more easily accommodated to the parent company's needs than brownfield establishments (Gamble, 2010; Tempel *et al.*, 2006a). On the other hand, adaptation of

subsidiaries to local norms is impacted by the degree of and match in interdependence between the subsidiary and the local institutional environment (Frooman, 1999; Tempel *et al.*, 2006a). In Eastern Europe, however, being a component of an MNE may, in fact, increase the subsidiary's legitimacy due to the dubious reputation of many local firms that arose especially during the first phases of the transition process (Kostova, 1999). This is reflected in the remarks by quite a number of Polish and Estonian authors regarding the distrust many of their compatriots display in the market economy, (see e.g., Alas & Tafel, 2008; Kalmus & Vihalemm, 2006; Kooskora, 2006; Lewicka-Strzalecka & Kozminski, 2006).

Ferner and Quintillana (1998) observe that, despite the numerous studies on MNEs and international HRM, the extent to which MNEs transfer home country personnel practices and institutional elements to their foreign subsidiaries is under-researched. The minimal research projects conducted on this issue have concentrated predominantly on US, UK and Japanese MNEs (Dickmann, 2003; Ferner & Quintanilla, 1998). As evidenced by the general dearth of research on SMEs, this observation will be even more relevant for multinational SMEs. Home country influences are probably less pervasive in the employment relations arena than in other areas of MNE policies and practices since these are subject to strict host country legislation and regulation (Ferner & Quintanilla, 1998). Empirical research demonstrates that MNEs from different countries behave differently within their foreign subsidiaries with regard to personnel management. Conversely, host country institutions exert a great impact on personnel practices. Meardi *et al.* (2013) find, in their multiple case study on subsidiaries of foreign MNEs in the Czech Republic, that parent companies generally leave the design of HRM policies and practices to local management. Consequently, the 'country-of-origin' effect is moderated by the 'host-country' effect which may be expressed in a policy comprising the home country perception of personnel adapted to local circumstances. Furthermore, local managers may – because of their power due to their knowledge of local conditions – gain discretionary authority to adapt company policies to the local situation (Ferner *et al.*, 2001). The greater the institutional distance between the home and host country, the more practices will be locally adapted in the foreign subsidiary (Gooderham *et al.*, 2006).

Differences in practices between the parent company and the subsidiary can be segmented into 'forced' differences – due to unavoidable legal prescriptions – and differences by choice due to MNEs' possible interests in deviating from home country practices that they consider to be overly constraining (Dickmann, 2003). Forced differences result in additional costs to the MNE in the literature

designated as ‘liability of foreignness’ (Zaheer, 1995). Costs attributable to the liability of foreignness may also encompass costs accrued as a result of the company’s unfamiliarity with the host country’s institutional environment. Given the generally signalled lack of expertise, staff, and knowledge in SMEs (see e.g., Graafland *et al.*, 2003; Lepoutre & Heene, 2006; Storey, 1994; Tilley & Tonge, 2003), this will apply to multinational SMEs in particular. In the resource-based view, liability of foreignness costs must be compensated by the firm’s competitive advantage based on firm-specific resources and capabilities. Liability of foreignness, however, will differ between countries, sectors, and companies (Zaheer, 1995).

2.4.5 Institutional capital and institutional entrepreneurship

Consequently, firms must exhibit specific capabilities in order to address issues raised by institutional distance and liability of foreignness. Oliver (1997) denominates these capabilities as institutional capital. She defines institutional capital as: “the firm’s capability to support value-enhancing assets and competencies. Institutional capital is the context surrounding resources and resource strategies that enhances or inhibits the optimal use of valued resource capital” (Oliver, 1997, p. 709). A key issue in this respect is how to manage the institutional context of resource decisions. That makes both resources and institutional capital essential for acquiring sustainable competitive advantage. Oliver (1997) identifies the compatibility of resource use and personnel practices supporting resource use as important issues for further research.

Institutional capital is especially relevant in order for MNEs to be able to apply resources in new national institutional environments in such a way that resource-based advantages can be transferred to foreign subsidiaries. After all, the use of resources, and of employees in particular, that is perfectly acceptable in one national institutional environment may be completely unacceptable in another national institutional environment. This results in a risk that resource-based advantages are inappropriately transferred and implemented in foreign subsidiaries (Brouthers *et al.*, 2008; Jackson & Deeg, 2008). Adaptation to the local institutional environment increases both normative and cognitive legitimacy (Jensen & Szulanski, 2004). The regulative part of the host country’s institutions is easiest to observe and understand because of its formalised nature. Normative and cognitive legitimacy are the most difficult to attain since the normative and cognitive insti-

tutions are mostly tacit and thus need to be interpreted (Kostova, 1999). This line of reasoning correlates the strategic HRM view to the institutionalist perspective (Jackson & Deeg, 2008). Kostova (1999) adds the significant statement that small MNEs may find it more problematic to acquire host country legitimacy than large MNEs because large MNEs have more opportunity to build institutional capital due to their larger and more diversified international experience.

In multinational SMEs, institutional capital is localised in the owner-manager in consideration of his central position in the company. Multinational SMEs generally possess only minimal power to influence the foreign subsidiary's external institutional environment. Therefore, since the host country's cognitive and normative institutions affect the internal institutional environment of the foreign subsidiary, this is the natural terrain for institutional entrepreneurship. DiMaggio (1988) introduced the term 'institutional entrepreneur' for actors undertaking efforts to change institutions notwithstanding societal or organisational pressures to conform to the existing institutions. Institutional entrepreneurship entails the owner-manager striving for a change of institutions in a certain direction (Boxenbaum & Jonsson, 2008). To achieve this, institutional entrepreneurs undertake activities and leverage resources to create or transform institutions (Battilana *et al.*, 2009). Figure 2.3 exhibits the range and limits of multinational SME institutional entrepreneurship. Multinational SME institutional entrepreneurs can affect the internal organisational environment by changing cognitive and normative institutions. However, they cannot change the influence of the external organisational environment since this is regulated by the national business system which sets regulative limits on institutional entrepreneurship by multinational SME owner-managers.

Characteristically, institutional entrepreneurs are only minimally embedded in the institutional environment which creates an advantage: the less embedded or more peripheral entrepreneurs are, the more likely they are to recognise shortcomings of the existing institutional arrangements and the more they stand to gain from change (Dorado, 2005; Greenwood & Hinings, 1996; Hardy & Maguire, 2008; Sahlin-Andersson & Engwall, 2002b). This emphasises the suggestion by various authors (see e.g., Cantwell *et al.*, 2010; Thornton & Ocasio, 2008) that MNEs are more likely to engage in institutional entrepreneurship. First, because of the bare fact that they operate in multiple, divergent institutional environments, they are in a perfect position to compare the merits and demerits of diverse institutional arrangements and thus to select those most suited for their needs of global transfer. Second, modern MNEs are networks of relatively autonomous subsidiaries which may stimulate

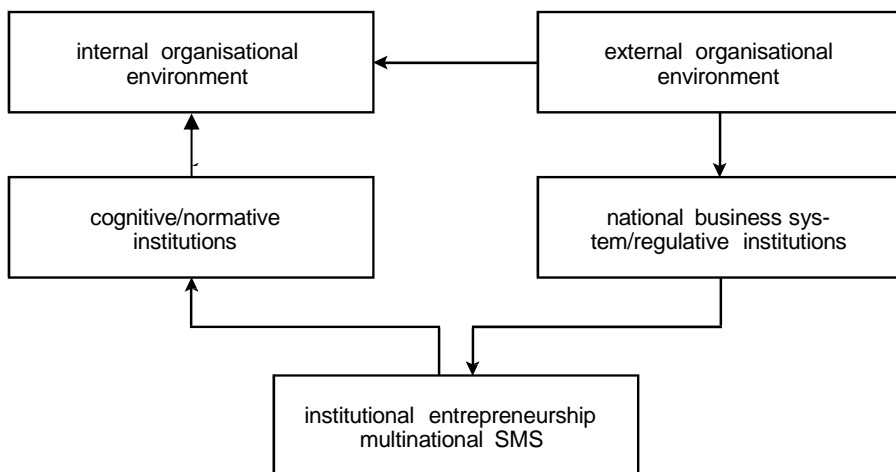
them to facilitate transfer of new practices transferable across borders (Cantwell *et al.*, 2010).

Battilana *et al.* (2009) observe that the presence of multiple institutional orders provides actors with opportunities for change. This can be applied to the situation for MNEs that face conflicting institutional demands between the countries in which they operate. They are afforded an ability to take a detached view at the existing institutional order and, consequently, to identify opportunities for change. Phillips and colleagues (2009) suggest that institutional change comprises three stages:

1. understanding the current institutional environment;
2. emphasising its deficiencies; and
3. presenting alternative institutional arrangements that ameliorate these deficiencies.

Entrepreneurs must, as actors, initiate changes that are divergent from existing institutions and, subsequently, actively participate in the implementation of these changes in order to be considered as institutional entrepreneurs (Battilana *et al.*, 2009). Active participation implies actively mobilising resources in order to implement these divergent changes. Mobilising resources is required to undertake activities aimed at:

Figure 2.3 Range and limitations of multinational SME entrepreneurship



1. developing a vision regarding the need for change;
2. gaining others' support in inducing change; and
3. institutionalising the desired change.

With regard to developing a vision, the institutional entrepreneur must outline the relevant institutional deficiencies, indicate how suggested changes correct the indicated deficiencies and outline the reasons why it is important to implement the suggested changes. In order to gain support, institutional entrepreneurs will attempt to relate these to the needs and interests of relevant stakeholders (Battilana *et al.*, 2009; Dorado, 2005; Maguire *et al.*, 2004). Gaining support is facilitated by the personal charisma of the entrepreneur based on other-regarding values towards personnel (Greenwood & Hinings, 1996). Finally, although they concede that additional research into the resources required to stimulate institutional change is required, Battilana and colleagues (2009) suggest that financial resources and other resources such as formal authority and institutional capital are essential.

Intention to bring about change or success is a necessary requirement for being recognised as an institutional entrepreneur (Battilana *et al.*, 2009). Therefore, Battilana *et al.* (2009, p. 72) propose the following definition: “[I]nstitutional entrepreneurs, whether organisations or individuals, are agents who initiate and actively participate in the implementation of changes that diverge from existing institutions, independent of whether the initial intent was to change the institutional environment and whether the changes were successfully implemented”. This change may concern a single organisation or the broader institutional environment of the institutional entrepreneur.

Several issues regarding institutional entrepreneurship require further research. First, a core question still needing to be solved is how multiple embeddedness enables international institutional entrepreneurs to manage the multiple and, at times, conflicting institutional demands they are facing. Research suggests that multiple embeddedness might be a relevant explanatory factor for the occurrence of international institutional entrepreneurship (Battilana *et al.*, 2009; Gelbuda *et al.*, 2008).

Second, recent research (e.g., Greenwood *et al.*, 2010; Marquis *et al.*, 2007) has indicated that the particular characteristics of local institutional environments have continued to be significant and have gained increased visibility when confronted with increasing globalisation. Simultaneous local and global embeddedness may increase the probability that SME owner-managers develop into

institutional entrepreneurs and may also influence methods by which change is implemented (Battilana *et al.*, 2009).

Third, given the fact that employee relations arrangements may be interpreted differently between national institutional environments, very few studies address the question of how institutional entrepreneurs within SMEs translate HR practices in specific institutional environments and with the consequences of translated HR practices (Blasco & Zølner, 2010; Czarniawska & Mazza, 2003; Gooderham *et al.*, 1999; Kostova & Zaheer, 1999).

2.5 EMPLOYMENT RELATIONS IN SMEs

2.5.1 General characterisation of employment relations in SMEs

Working conditions in SMEs have often been depicted as being inferior to those in large firms (Bacon & Hoque, 2005). This is reflected in, for instance, the problems many SMEs experience in retaining their employees when confronted with large-firm competition (Deshpande & Golhar, 1994; Sels *et al.*, 2006a). One explanation is a lack of insight within SMEs into the nature and peculiarities of employment relations which is expressed in inefficient personnel policies that result in increased levels of employee dissatisfaction and turnover (Deshpande & Golhar, 1994). Another reason is that many SME owner-managers are negligent in carrying through with government regulations on working conditions either due to aversion to external intervention or because of the perceived burden of regulation. Combined with a deficiency of HRM expertise, this may explain the relatively reactive nature of SME decision-making in the field of employment relations (European Multistakeholder Forum on CSR, 2004; Harney & Dundon, 2006; Koch & De Kok, 1999).

Owner-managers' aversion to encroachment upon their autonomy is also demonstrated with their attitude towards employee involvement: while employers often favour information sharing because of its potential business benefits, they deliberately avoid consultation since this threatens their prerogative as sole bearer of authority within the company (Wilkinson *et al.*, 2007). This is strengthened by the circumstance that SME employees seem to be comparatively only minimally aware of their legal rights and seem to be less inclined to complain about their working conditions out of fear of losing their jobs (Bacon & Hoque, 2005).

An additional factor negatively affecting working conditions consists of the minimal employment of sophisticated personnel practices due to the absence of a professional HRM function in most SMEs (Bacon & Hoque, 2005). This also implies that SME employee relations arrangements are difficult to categorise (Bacon, 2008). Wilkinson and colleagues (2007) argue that employment conditions in SMEs vary widely not only between sectors but also between individual firms within a sector. Firms that are extremely dependent upon skilled employees are more likely to have employment relations characterised by job discretion and trust than firms employing mainly unskilled, easily replaceable workers (Bacon & Hoque, 2005).

Smaller SMEs, in particular, are characterised by the absence of formal, written personnel policies. Instead, informal policies are frequently employed for decision-making in personnel issues (Brown *et al.*, 2011; Harney & Dundon, 2006). Bacon (2008) argues that, in those cases, management style is an appropriate beginning point for analysing employment relations. If a formal personnel strategy is apparent, this is, most often, a direct result of the owner-manager's conviction that employees are of importance to the company. Formality of personnel practices and company size are positively correlated (Patel & Cardon, 2010). In conclusion, practices used and the degree of formalisation depend on the firm's specific characteristics and on the firm's external product and labour markets, and political context (Cassell *et al.*, 2002; Harney & Dundon, 2006).

2.5.2 Employee salience and employee relations arrangements

I argue that employee relations arrangements in SMEs can be categorised according to the degree in which employees are considered as powerful and legitimate stakeholders to firms. The dimensions of power and legitimacy are excellently suited when categorising employee relations arrangements in SMEs because they are sufficiently flexible to incorporate the informality characterising employee relations in many SMEs. Whether SME owner-managers consider employees as salient stakeholders depends on the extent to which they perceive employees to be vested with legitimacy and power as stakeholder attributes (Mitchell *et al.*, 1997; Neville *et al.*, 2011). Legitimacy reflects the recognition by the owner-manager that employees are affected by the company's actions and behaviour which creates a responsibility to take their needs and interests into consideration. Power reflects the owner-manager's self-regarding values, i.e., employ-

ees affect firm performance. I operationalise the construct of legitimacy through the other-regarding values of the owner-manager. The relationship between employee legitimacy as stakeholders and the owner-manager's other-regarding values is positive: the greater the weight of other-regarding values in the owner-manager's value system, the more the owner-manager will consider employees as legitimate stakeholders of the firm. Other-regarding values are measured by the extent to which the owner-manager:

1. considers employee needs and interests not only as a means to an end but also as an end in itself;
2. professes to possess a moral responsibility for their employees' well-being;
3. assumes mutual trust in interactions between firm and employees; and
4. makes only functional distinctions between the various categories of employees (Greenwood & De Cieri, 2007; Guest *et al.*, 2008; Paauwe, 2004).

Power reflects the extent of employee power as perceived by the owner-manager and stems from four possible sources:

1. KSAs,
2. union power,
3. works council power, and
4. government regulation and enforcement.

The relationship between power and the degree to which owner-managers, on the basis of self-regarding values, are willing to take employee needs and interests into account in their employee relations arrangements is positive in nature. The greater the perceived employee power, the more willing the firm is to include employee needs and interests in the design of their employee relations arrangement. Employee power is measured by the extent to which the owner-manager considers:

1. employee KSAs as strategic to the firm;
2. government regulation and enforcement as strict;
3. union power as coercive; and
4. the works council (if present) as knowledgeable, proactive, and reliable (Bryson *et al.*, 2006; Coff, 1999; Frooman, 1999).

Thus, employee power incorporates a perception about employees as resources that are required to achieve the company's objectives as dictated by management. Greater perceived employee power indicates either the degree to which owner-managers consider development of firm-specific KSAs to be a potential source of competitive advantage or the coercion by union or government to take employ-

ees' needs and interests into consideration in their use of the workforce to achieve the firm's business objectives. Meeting employees' needs and interests in both cases is seen as a means to an end, i.e., advancement of firm performance. Low employee power suggests that employees do not have strategic firm-specific KSAs and are not supported by union power or government regulation. Consequently, competitive advantage, in this case, is mainly dependent on cost minimisation. Thus, employees are expendable, and there is no need to take account of their needs and interests.

As stated previously, other-regarding values, on the other hand, indicate to which degree owner-managers consider employees as persons whose well-being is affected by the firm's actions and behaviour. Consequently, employees' needs and interests must be taken into consideration in the employee relations arrangement as an end in itself. Other-regarding values and employee power, however, are not mutually exclusive but are apparent in combinations of both types. Combining other-regarding values and employee power allows for distinguishing between four types of employee relations arrangements (see Figure 2.4). Each arrangement establishes its own type of organisational climate and its own application of HR practices. Organisational climate represents the nature of social exchange within the company while HR practices reflect the effort-reward bargain for employees.

The low-wage system is characterised by low employee power and perceives employees predominantly as a cost factor. Employees are expendable input factors whose cost must be minimised in order to maximise profit. This makes the low-wage system also score low on the other-regarding values axis as it considers employees exclusively as an instrument to increase profit (Greenwood & De Cieri, 2007; Jones *et al.*, 2007; Truss *et al.*, 1997). With regard to employee power, the low-wage system sharply contrasts with HRM-based employee relations arrangements (Katz & Darbshire, 2000) that consider people as a source of value creation which can be tapped either by a tight cohesion between HRM and the overall business strategy (hard HRM) or by generating high employee commitment (soft HRM) (Becker & Gerhart, 1996; Gooderham *et al.*, 2004). The HRM approach considers employees as assets whose productive capacity should be optimised.

Employee relations arrangements based on soft HRM score higher than those based on hard HRM which implies that firms engaging in soft HRM are more likely to include employee needs and interests in the design of their HR policies and practices. Taking employee needs and interests into consideration is expected to result in greater commitment to the firm and, thus, inspire employees to contribute more

Figure 2.4 Employee relations arrangements based on combinations of owner-managers' other-regarding values and employee power

employee power	high	HRM	employee-oriented CSR
	low	low-wage system	paternalism
		low	high
		other-regarding values	

effort on behalf of the firm. However, since soft HRM compared to employee-oriented CSR scores lower on other-regarding values, opportunist management behaviour in this respect is more likely to arise if neglect of employee needs and interests is ascertained to be better for the financial performance of the firm (Jones *et al.*, 2007).

Paternalism is typified by a combination of relatively strong other-regarding values with relatively low perceived employee power. Paternalism entails that the owner-manager develops benevolent, caring policies aimed at those employee needs and interests that the owner-manager deems important based on his individual norms and values. The objective is to legitimate moral managerial authority over employees. Consequently, under this system, there is little attention directed toward the development and participation of employees which implies that employees are considered as cost factors rather than assets (Greenwood & De Cieri, 2007; Purcell, 1987). Accordingly, in paternalism, employees may be expected to be relatively dissatisfied with communication and participation or, otherwise stated, with voice opportunities.

Finally, employee-oriented CSR combines a high level of other-regarding values in the owner-manager's value system with high perceived employee power. Under this system, the owner-manager strives to build employment relations on the needs and interests that the employees themselves believe to be most important. To achieve this, participation of employees is required (Greenwood & De Cieri, 2007), for example, by emphasising self-actualisation in performance interviews.

The combination of high employee power and high other-regarding values is apparent in the owner-manager's conviction that giving employees room for self-actualisation helps best to develop them into valuable assets (Wiley, 2012). Consequently, compared to the other employee relations arrangements, salience of employees as stakeholders is most significant in employee-oriented CSR. High salience of employees implies high ranking of employees as stakeholders by owner-managers (see e.g., Hammann *et al.*, 2009; Hoevenagel & Bertens, 2007; Mankelow, 2008; Russo & Perrini, 2010).

The differences between the nature and degree of employee salience between the various categories of employee relations arrangements spill over in differences between the range and nature of the HR practices and the organisational climates that construct the employee relations arrangements. This implies that employee relations arrangements can be classified from the employee viewpoint by means of organisational climate and HR practices as dimensions. This classification is analogous to the one from the owner-manager perspective: other-regarding values are primarily expressed in the type of organisational climate while employee power primarily comes to the forefront in the design and execution of specific HR practices. For instance, self-regarding values induce the owner-manager to consent only to courses for employees that are expected to improve employee performance while other-regarding values lead the owner-manager to take into consideration the possibilities for self-actualisation as well.

Figure 2.5 Employee relations arrangements based on the level of employee appreciation of firms' organisational climate and HR practices

HR practices	high	HRM-based	employee-oriented CSR
	low	low-wage	paternalism
		low	high
		organisational climate	

The employee assessment of organisational climate and HR practices defines firms' employee relations arrangements from the employee viewpoint. Figure 2.5 demonstrates that employee-oriented CSR is characterised by a great appreciation of both the organisational climate and the HR practices. HRM-based arrangements are characterised by a high rating of the HR practices and low appreciation of the organisational climate. Low-wage systems are typified by a low rating of both the HR practices and the organisational climate while, finally, paternalist arrangements are described by high appreciation of the organisational and a low appraisal of the HR practices.

2.5.3 HRM practices in SMEs and firm performance

Employee relations arrangements and the accompanying HRM practices in the areas of hiring and selection, training, performance appraisal, compensation, participation, and internal labour market directly impact employees' attitudes towards their jobs, employee behaviours with regard to turnover and absenteeism, and employee performance with regard to individual productivity and problem-solving. These intermediate variables affect organisational operational performance, for instance, organisational productivity and innovativeness. Finally, operational organisational performance affects a firm's financial and market performance (Sels *et al.*, 2006b).

Thus, the nature of the employee relations arrangement affects firm performance. According to Grant and Shields (2002), the literature regarding the relationship between HRM and firm performance demonstrates three deficiencies. First, as most studies focus on HRM in large companies, relatively little is known about HRM in SMEs. Second, firm performance is equated with financial performance, leaving out information regarding the types of performance significant to other stakeholder groups such as customer satisfaction and employee satisfaction. Finally, employees' appreciation of the HRM practices utilised by the firm is steadfastly ignored.

With regard to providing training for employees in order to increase firm performance, SMEs tend to be reserved since they find it much more difficult than large enterprises to replace employees during the training period. The cost of training also plays a role in the reserved stance of employers because of less slack

financial resources (Banks *et al.*, 1987). Furthermore, employers and employees may have diverging interests: employers would like to keep their business profitable while employees want to advance their career either within or outside the firm (Curran & Blackburn, 2001). Cardon and Stevens (2004) ascertain, however, that despite these constraining factors, the vast majority of SMEs in their study is engaged in some form of training program. Training in SMEs, however, possesses a much more on-the-job and informal character than in large firms. Knowledge transfer often takes the form of learning-by-doing (Cardon & Stevens, 2004; Festing, 2007). Festing (2007) notes that informal training is particularly suited for the generation of hard-to-imitate firm-specific knowledge that may contribute to sustainable competitive advantage.

Employee involvement practices in SMEs also differ from those in large enterprises. First, they tend to be more informal and less sophisticated since formality and sophistication increase the costs of practices. Second, employee relations are positively affected by the existence of mutual trust between management and employees. The smaller physical and hierarchical distance between employees and top management in SMEs is favourable for the generation of mutual trust compared to large enterprises. Yet, it also facilitates a generation of distrust depending on the attitude of owner-managers towards employees (Bryson, 1999). Furthermore, where employee involvement in large enterprises is meant to reduce the negative effects of bureaucracy, complex structures, and hierarchy, this is not necessary evident in SMEs with their informal working environment and lesser degree of complexity and hierarchy. For this reason, as well, employee involvement practices will qualitatively differ in SMEs compared to large enterprises (Wilkinson *et al.*, 2007).

Wilkinson *et al.* (2007) find that many involvement practices in SMEs – especially in the area of downward communication – do not contribute to employees' feeling that they are involved in the decision-making process. Relatedly, Bryson (1999) discovers that only two-way communication combined with upward problem solving results in a strong positive effect on firm performance. Nonetheless, Wilkinson and colleagues (2007) discovered that most employees seemed quite comfortable with their situation as demonstrated, for example, with only a minimal turnover intention. They identified favourable external market conditions and favourable internal conditions in the form of management style and organisational climate as possible explanatory factors for this. Bryson (1999) argues that, compared to employees in large enterprises, SME employees attach greater significance to non-economic rewards such as satisfactory interpersonal relations. Consequently, SME employees may prove to be sensitive to employee involvement prac-

tices that positively affect the organisational climate. In that event, they can be expected to display more confidence in managerial decision-making which may contribute positively to firm performance.

2.6 NATURE AND CONTENT OF EMPLOYEE-ORIENTED CSR

2.6.1 Employee needs and interests as basis

The exchange relationship between employees and their employers is not only an exchange of labour services and time for money but involves items such as knowledge, information, participation, and well-being. This fundamentally distinguishes transactions in the labour market from other economic transactions (Blau, 1989; Paauwe, 2004; Walsh, 2007). Paauwe (2004) argues that, for these reasons, the employment relationship should be governed – on an equal basis with considerations of economic rationality – by consideration of moral values. Legge (1998) suggests that employees are more likely to perceive HR practices as positive if they judge the underlying principles to be ethical.

Management can achieve this by viewing employees as stakeholders and act in accordance with their interests as well as in the interests of the firm. This implies that employee rights must be secured and that employees participate in one way or another in the decisions that affect their well-being. This also demands meeting employees' needs for a fair balance between their contributions to the firm and the revenues from that contribution, both material and immaterial (Legge, 1998; Paauwe, 2004). Paauwe (2004) argues that it is possible for firms to align moral values and economic rationality in such a way that it results in sustainable competitive advantage. This enables achievement of priority number one, i.e., the survival of the firm and fulfilment of the long-term interests of stakeholders. The difficult question in this aspect is how to align the more or less diverging interests of the employees and the firm as much as possible (Boxall, 1996).

Worker satisfaction and well-being are dependent on the employee outcomes of the employee relations arrangement being regarded by management as an end in itself instead of as a means to an end (Guest, 2002). A number of studies (see e.g., Edgar & Geare, 2005; Freeman & Rogers, 1999; Guest, 1999; Hodson & Roscigno, 2004; Wiley, 2012) indicate that, overall, employees want to be respected and appreciated

by management. Needs and interests that employees deemed particularly pressing were information-sharing, participation, employment security, personal development, balance between working and private life, and cooperative relations with management. Employees believe it is important for organisations to realise that many employees must combine work and family care. In many working environments, however, a combination of the two is difficult to achieve (Edgar & Geare, 2005). Open and honest communication as well as direct and indirect participation positively affect both employee well-being and the performance of the organisation (Edgar & Geare, 2005; Freeman & Rogers, 1999). Freeman and Rogers (1999) and Hodson and Roscigno (2004) ascertained that workers prefer cooperative relationships with management because these cooperative relationships create an agreeable and productive workplace. In the perception of workers, cooperation by definition implies employment security and some type of joint decision-making.

Employee-oriented CSR takes these needs and interests of employees as a basis for shaping the employment relationship. This is expressed in both an employee-friendly organisational climate and in the design and working of specific HR practices employed in employee-oriented CSR (Guest & Peccei, 2001; Pinnington *et al.*, 2007). A crucial beginning point is the observation that the simultaneous pursuit of employee and firm outcomes by means of employee-oriented CSR requires that management act from both economic and ethical considerations (Caldwell *et al.*, 2011). Research demonstrates that good workplaces are defined as firms that combine a resource-based business strategy with ethically based employment relations systems and that they are quite rare (Guest *et al.*, 2008; Legge, 2007).

Still, Tsui and colleagues (1997) ascertained by their study on employment relations arrangements in companies in the United States that what they termed the mutual investment employment relations approach – comparable to employee-oriented CSR – appeared to be the most effective employment relations arrangement in producing positive effects on firm performance. This begs the question why such approaches are not more common practice in business. Pfeffer (1994), Ichniowski and colleagues (1996), and Guest *et al.* (2008) suggest that one of the main explanations may be a lack of mutual trust between employees and management.

Layoffs, for instance, constitute a breach in employees' confidence in employment security. Consequently, though layoffs decrease labour costs, they also decrease

the remaining employees' performance and commitment (Tsui *et al.*, 1997). Another reason may be due to high costs of employee-oriented CSR (Tsui *et al.*, 1997). This may be relevant especially for SMEs since many of them are confronted with severe constraints in financial resources (Jenkins, 2006; Lepoutre & Heene, 2006; Spence, 2007; see e.g., Tilley & Tonge, 2003).

2.6.2 Organisational climate

"The shaping of the employment relationship takes place in an area of continuous tension between added value and moral values" (Paauwe, 2004, p. 3). Morally fair treatment of employees demands that the firm's emphasis be on social exchange relationships with employees rather than economic exchange relationships. Social exchange necessitates investment in the relationship by both parties. Such an investment carries risk for both parties since one may disappoint the other in an effort to maximise private benefits. Thus, mutual trust is required for social exchange relationships to be and to remain viable (De la Cruz Déniz-Déniz & De Saá-Pérez, 2003; Nahapiet & Ghoshal, 1999; Shore *et al.*, 2006). Consequently, trust is at the heart of cooperative employment relations as embodied in employee-oriented CSR. Employee-oriented CSR requires management to show behavioural consistency and integrity, to share information, to jointly make decisions, to delegate control, and to show personal interest in employees (Guest *et al.*, 2008; Nahapiet & Ghoshal, 1999). This also implies that the firm's organisational climate encourages employees to use voice instead of exit if employees, for whatever reason, are not satisfied with their working conditions (Hirschman, 1970).

This makes Hirschman's (1970) exit/voice/loyalty model relevant to employee-oriented CSR. Though significantly focussed on consumers using voice or exit in their relationships with producers, Hirschman (1970) demonstrated that his model could also be exploited to explain employee behaviour in the employment relationship. Loyalty determines whether an employee will choose for exit or voice in the event of dissatisfaction (Klaas *et al.*, 2012; Walker & Hamilton, 2011). Farn-dale and colleagues (2011, p. 114) define employee voice as "a set of rules and procedures that allow individuals affected by a decision to present information relevant to that decision". The 'employee voice climate' consists of mechanisms enabling employee voice, a stimulating atmosphere allowing employees to come forward with ideas, and a general feeling that employee ideas and opinions are considered in the decision-making process. That makes employee

voice a part of the organisational climate in firms engaging in employee-oriented CSR. The quality of such a climate can be meaningfully researched by investigating employees' perceptions and appreciation of the organisational climate.

Dundon *et al.* (2004) distinguish between four forms of voice:

1. individual dissatisfaction regarding a certain issue with management;
2. collective organisation as countervailing power against management, for instance, through trade unions;
3. participation in management decision making in order to increase productive efficiency and effectiveness; and
4. mutuality of interest through employer-employee partnership in order to secure long-term survival for the firm and employment security for employees.

This latter form can be associated with employee-oriented CSR. Voice, thus, consists of two different elements:

1. communicating work-related grievances to management, and
2. employee participation in decision making (Dundon *et al.*, 2004; Lavelle *et al.*, 2010).

This implies that voice is employed to bridge the gap between actual and desired working conditions. Freeman and Medoff (1984) argue that trade unions are indispensable in this context. Many working conditions such as health and safety issues are, in fact, public goods. A union is needed to ensure an equitable distribution of the outcomes of voice. Besides, individual workers may not reveal their true opinion to management out of fear of being terminated. In contrast, many authors, (e.g., Budd *et al.*, 2010; Farndale *et al.*, 2011; Hodson & Roscigno, 2004) argue that direct voice cannot be discarded since, in many situations, it is the only available channel for employee voice. Reasons are, first, that union density has declined considerably over the past decades in North America and most countries of North-Western Europe. Second, unionisation in many 'new' professions and occupations is minimal. Finally, and most relevant in the framework of this thesis, unionisation in the SME sector has traditionally been lower than in large firms (see e.g., Budd *et al.*, 2010; Heery *et al.*, 2008; Kim *et al.*, 2010; Lavelle *et al.*, 2010; Storey, 1994; Visser, 2006).

Hirschman (1970) discerns two factors affecting employees' decisions whether to exit. First, employees will weigh the probability that individual or collective use of

voice will bring the organisation back into accordance. Second, employees will weigh the certainty of their current employment against the alternatives available to them. Employees will generally employ exit to express their unhappiness with their functioning in and treatment by the firm if voice appears to be ineffective to them. Voice is deemed ineffective if it is not perceived to contribute to redressing the undesirable state of affairs within the firm due to lack of influence and bargaining power. This perception is weighed against the perception of an alternative, attractive employment opportunity. Exit, however, incurs opportunity costs in the form of foregone earnings, promotion opportunities, and the social benefits of the firm's organisational climate. Moreover, loyalty felt towards the firm may dissuade employees from using the exit option despite their being unhappy with the present state of affairs. In employment relations arrangements other than employee-oriented CSR, this may lead the firm's management to promote loyalty in order to repress voice as well as exit by turning voice into an instrument exclusively enabling employees to 'blow off steam'. This way, management expands its own discretion at the expense of employees.

Firms engaging in employee-oriented CSR, in contrast, attempt to create an organisational climate in which employees freely use voice to signal possible dissatisfaction in order to enable management to redress the situation. Through grievance procedures, an employer can exhibit to what extent employee rights matter to the organisation in the event of individual or collective grievances in the workplace (Walker & Hamilton, 2011). If grievance procedures are perceived to be fair, employees will feel more secure in the workplace. Such an organisational climate is characterised by the presence of high levels of procedural – the perceived fairness of decision-making processes affecting employees – and distributive justice – the perceived reward in the firm. Research suggests that especially procedural justice affects employees' perception of the overall fairness of organisational decisions (Grant & Shields, 2002; Van Buren, 2005; Winnubst *et al.*, 2009). Procedural justice can be enhanced by voice opportunities for employees (Bowen & Ostroff, 2004).

In SMEs, organisational values, to a significant extent, are determined by the personal value systems of the owner-managers as they occupy a dominant position within the company (Jenkins, 2006). Organisational climates in firms engaging in employee-oriented CSR are characterised by the presence of values based on the dignity and intrinsic value of employees. Industrial relations research suggests that employees reciprocate management behaviour. In organisations that treat employees with due respect, employees reciprocate by displaying cooperative

behaviour. Managerial responsiveness to employee needs and interests is key in this aspect (Bryson *et al.*, 2006). This results in providing employees with meaningful work, opportunities to participate and a recognition of the interdependence between private and working life (Rendtorff, 2009). This also presupposes the presence of mutual trust providing employees with a basis for self-esteem and a sense of security (Wicks *et al.*, 1999). Doh and Stumpf (2005) contend that owner-managers with this value system demonstrate value-based leadership which is expressed in morally-grounded decision-making and maintaining optimal relationships with employees as stakeholders. Thus, management commitment to values is key to generating employee commitment and trust (Caldwell *et al.*, 2011).

An employee-friendly organisational climate also requires breaking down the distinction and barriers between white-collar and blue-collar employees (Pfeffer, 1994). To accomplish this, communal facilities such as a canteen and collective company outings may contribute. However, this is only credible to employees if the company's management demonstrated in its behaviour that both groups of employees are equally essential to achieve company objectives.

2.6.3 Employee-oriented CSR practices: participation and communication

An employee-friendly organisational climate – created by the owner-manager – acknowledging the legitimacy of employees as stakeholders is based on employees' needs for free use of voice, procedural justice, transparency, and employment security and, thus, is to be considered as the core of employee-oriented CSR. The specific HR practices must be designed in accordance with the organisational climate. In this respect, I distinguish six categories of HR practices that can be related to employee-oriented CSR:

1. communication and participation;
2. employment security;
3. fair compensation;
4. development and self-actualisation (including performance appraisals);
5. balance between working life and private life; and
6. adequate workplace conditions.

The discussion in Section 2.6.2 has demonstrated that communication and participation practices are the most important elements configuring the organisational

climate component of employee-oriented CSR. The other clusters of HR practices are dealt with in Section 2.6.4.

Participation by employees in the company's decision-making system can be justified on normative grounds by referring to the fact that they are affected in their working as well as their private lives by their companies' actions and behaviour (Crane & Matten, 2004). Meaningful participation requires an organisational climate characterised by an ethically-based stance of management towards participation. However, introducing participation in an existing non-participatory organisational climate is difficult since it necessitates a change in ingrained patterns of behaviour both of management and of employees (Freeman & Rogers, 1999).

Information sharing in the form of two-way communication between management and employees is fundamental for effective and beneficial employee participation and comprises such aspects as quality problems, production costs, future strategy, and the (financial) performance of the firm (Gant *et al.*, 2002). The greater the degree of information sharing, the more employees feel themselves considered as central stakeholders in the firm and the greater the positive effect on employees' organisational commitment becomes. Therefore, companies may share information that is substantial and useful to their employees. Since only employees – being the receivers of information – can evaluate the transparency and utility of information, this requires companies to learn about employees' information needs. Research has indicated that employees prefer open and honest communication even if the information contains bad news (Rawlins, 2008; Winnubst *et al.*, 2009). However, many studies report that companies, in practice, often communicate quite ineffectively with their employees (see e.g., Edgar & Geare, 2005; Guest *et al.*, 2008; Pfeffer, 1994; Winnubst *et al.*, 2009).

Guest and Peccei (Guest & Peccei, 2001) utilise the term 'partnership at work' to indicate participation. They distinguish between three approaches to partnership:

1. pluralist,
2. unitarist, and
3. hybrid.

The pluralist approach emphasises indirect participation in order to guarantee independent employee voice, for instance, through the codetermination rights of works councils, as is legally enforced in a number of European countries, or through union pressure in the company. Second, according to the unitarist approach, the interests of employers and employees coincide and are best provided for by direct employee

participation with regard to their daily work activities since employees have the most expertise in issues related to their work. Direct employee participation meets employees' needs for autonomy and employers' needs for optimal employee contribution to total value added. However, by itself, this approach does not generate employee voice in broader employment issues (Guest & Peccei, 2001). Finally, the hybrid approach acknowledges the tension between employee and employer interests and, therefore, promotes indirect participation mechanisms. Concurrently, the hybrid approach assumes that mutual value creation is possible through the cooperation between employer and employees as a result of direct participation policies. But these policies require the support of indirect participation to thrive in the long run in order to prevent misuse by management (Guest & Peccei, 2001).

In the high-commitment HRM literature, direct employee participation is embraced on self-regarding values-based grounds, i.e., participation is beneficial because it raises employee contribution to company prosperity. Budd *et al.* (2008) relate companies' increasing interests in direct participation to the decline of neo-Fordist mass production and the rise of production technologies requiring flexibility and quality. Providing employees with voice in the workplace decision-making and expanding their job discretion appeared beneficial when attempting to achieve the desired production flexibility and quality. Simultaneously, direct participation offered an alternative to union-dominated indirect participation and, in this way, reopened a debate regarding the need for union voice (Budd *et al.*, 2010).

Hodson and Roscigno (2004) signal the tension between management expectations about greater employee commitment and contribution, on the one hand, and limited organisational commitment to employees, on the other hand, as is evidenced in, for instance, the undermining of employment security through downsizing and numerical flexibilisation. This is the foundation of Freeman and Medoff's (1984) argument that union support is needed for employees, for instance, to make productivity-enhancing suggestions without having to fear management will abuse this information to make workers redundant. That is also the reason why certain high-commitment theorists emphasise the importance of employment security guarantees by management (Bryson *et al.*, 2006).

Jirjahn and Smith (2006) argue that works councils with codetermination rights may also secure employment guarantees in the event of worker suggestions of productivity improvement. High-commitment theorists object to this latter position by maintaining that direct voice is more likely to positively affect employee productivity since, with indirect participation, employee suggestions may become

lost in the process due to the impossibility to represent the entire workforce composed of individuals with diverging ideas and suggestions (Bryson *et al.*, 2006). Wigboldus and colleagues (2008) add to Jirjahn and Smith's (2006) argument by contending that the presence of works councils positively affects firm performance. This takes the form of direct effects on organisational outcomes, such as efficiency, productivity, and innovativeness, and two types of indirect effects. First, works councils moderate employee commitment by affecting employee acceptance of management decisions, employee perception of adequate interest representation, and/or employee perception of greater equality. Second, by being included in the organisational decision-making system, works councils co-erce management to think more carefully about their decisions.

Van den Berg *et al.* (2011) find that, when management radiates a positive perception regarding participation, the firm likely benefits through positive firm outcomes at an organisational level. After all, a positive management attitude toward works council rights or on employee participation, in general, stimulates employees to develop trust in the company's good intentions, to suggest solutions to productivity problems, and to take a long-run view on company survival. Such a positive management view is more likely to be present if:

1. the workforce is highly educated,
2. owners actively participate in managing the company, and
3. income distribution issues are addressed in collective bargaining agreements with trade unions.

These findings for the Netherlands are congruent with Jirjahn and Smith's (2006) findings for Germany.

Jirjahn and Smith (2006) ascertain that works councils may be unable to contribute to cooperative employer/employee relationships if they cannot convince workers of the benefits of cooperation. This may be due, for instance, to communication issues or to the inability of employees to assess the overall economic situation of the firm beyond their self-interest. Regarding shift work – which, by definition, entails working during unpleasant times – a works council cooperating with management may result in jointly determining working time schedules by management and employees resulting in greater acceptance by employees (Jirjahn & Smith, 2006). In SMEs, both managers and employees may prefer employing direct voice to indirect voice through works councils due to the fact that direct communication between owner-manager and employees is easy to induce. Employee preference of voice is conditional on the employer striving for long-term, high-trust relation-

ships with the workforce. Additionally, direct voice may provide employees with greater responsibility in their jobs and with the perception that management actually listens to them (Jirjahn & Smith, 2006).

The arguments above imply that participation is related to concepts of organisational democracy, pluralism, free speech, and even human dignity. These concepts are recognisable elements in employee-oriented CSR systems (Budd *et al.*, 2010; Guest & Peccei, 2001). With regard to this aspect, analyses of employee-oriented CSR should distinguish – analogous to Donaldson and Preston's (1995) and Wood's (1991) prescriptions – between normative (principles), descriptive (practices or processes), and instrumental (outcomes) components. In employee-oriented CSR principles, practices/processes and outcomes are conjoined to one another with employee needs and interests being the connecting thread (Guest & Peccei, 2001).

2.6.4 Employee-oriented CSR: other clusters of HR practices

The main HR practices in addition to participation and communication comprise five clusters:

1. employment security policies;
2. pay;
3. development and self-actualisation;
4. work-life balance policies; and
5. workplace conditions.

2.6.4.1 Employment security policies

The provision of employment security can be studied from various angles. A fit with competitive strategy or commitment generation is decisive in the event of employee power based on employees' possession of scarce, strategic KSAs (Kochan *et al.*, 1988). Employment security possesses a strong relationship with performance (Delery & Doty, 1996; Michie & Sheehan, 2005) since offering employment security demonstrates organisational commitment to the workforce (Pfeffer, 1994). Other-regarding values-based motives recognise employees' needs for employment

security, for instance, because this guarantees their livelihood (Guest, 2008; Wiley, 2012). Firms can increase employment security by means of functional flexibility in the form of job rotation and training which results in greater employability for employees (Pfeffer, 1994). Both soft HRM and employee-oriented CSR offer employment security to employees. Firms applying soft HRM do so based on self-regarding motives thereby attempting to profit from employee power or because they are coerced to do so by the union or government power, while firms engaging in employee-oriented CSR combine self-regarding profit motives based on employee power with other-regarding values-based motives (Gant *et al.*, 2002; Tsui *et al.*, 1997; Wood, 2000).

2.6.4.2 Pay

As a matter of course, pay is an important item for workers (Edgar & Geare, 2005; Freeman & Rogers, 1999). Employees want to achieve a fair effort-reward bargain which involves both procedural and distributive justice. Companies increase procedural justice by making pay decisions transparent. Firms with HRM-based employee relations arrangements associate distributive justice with variances in employee power. High pay is expected to attract capable employees while performance-related pay is expected to increase employee productivity and, subsequently, profitability (Bae & Lawler, 2000; Pfeffer, 1994). Firms with employee-oriented CSR act from an ethical conviction that employees should receive a fair wage for their efforts. Fair implies that wages are high enough to stimulate workers to provide the efforts desired so that performance-related pay does not need to be exploited. This is in accordance with the discovery that performance-related pay only minimally contributes to employees' satisfaction (Guest, 2002; Legge, 1998).

2.6.4.3 Courses, training and self-actualisation

In employee-oriented CSR, investment in employee development is indicative of the employer seriously considering the employees' needs for employment security and, thus, for continuing employability. Employee development consists of training, career opportunities, and performance appraisal aimed at employees' self-actualisation. In firms characterised by a low-wage system, there is little at-

tention paid toward employee development (Katou & Budhwar, 2010). Firms with HRM-based employee relations arrangements make extensive use of all three practices (Bae & Lawler, 2000). High value-added production and differentiated mass production especially require extensive training since this advances the firm's innovativeness (Bae & Rowley, 2001). Training improves the quality of the current employees (Delaney & Huselid, 1996). Furthermore, providing training facilities is expected to be in accordance with employee needs and interests (Beugelsdijk, 2008). Edgar and Geare (2005) ascertained that employees attach extensive significance to personal development through training. Firms with employee-oriented CSR distinguish themselves from firms with soft HRM by providing employees considerable options in the types of training to participate in and by emphasising self-actualisation in performance appraisals.

However, with regard to investment in training, both employers and employees face a dilemma (Brammer *et al.*, 2007; Edgar & Geare, 2005). Employee skills can be arranged along a continuum between purely general skills and purely firm-specific skills at the extremes (Gardner *et al.*, 2011). If training results in skills that are also beneficial to other firms, this may incite employees to switch employers following training if they discover that their current firms are unwilling to offer improved working conditions. Employers may fear that investment in employee training – especially with regard to general skills – will provoke poaching by competitors. Employees may fear that investment in firm-specific training will make them especially vulnerable to opportunistic behaviour by their employers since changing employers will deny them the fruits of their training investment (Coff, 1997). These perceived moral hazards necessitate the establishment of training programs on the basis of other-regarding as well as self-regarding values.

Career opportunities make training more attractive for employees. Furthermore, they facilitate participation since they tend to promote mutual trust between management and employees (Pfeffer, 1994). Providing career opportunities communicates to employees that the company is interested in their personal development (Paul & Anantharaman, 2003; Tsui *et al.*, 1997). Providing career opportunities is also related to procedural justice. Bowen and Ostroff (2004) suggest, in this respect, that employee participation in the design of performance appraisals contributes to procedural justice. Performance appraisals are also associated with training in the sense that they can be employed to identify opportunities for employees to strengthen their knowledge, skills, and abilities (Fey *et al.*, 2007).

Nonetheless, employees do not appear to associate performance appraisals with work satisfaction unless these appraisals are oriented at self-actualisation (Guest, 2002; Lado & Wilson, 1994).

In SMEs, training often takes the form of on-the-job training which, as a consequence, leads to the new and improved knowledge and skills being more tacit and firm-specific (Cardon & Stevens, 2004; Nooteboom, 2004). In order to establish the need and use for training, performance appraisals are an often employed instrument (Banks *et al.*, 1987). Russo and Perrini (2010) suggest that, since SMEs have a relatively simple organisational structure, they often require employees to flexibly adapt their competences and skills to different tasks in their job. Therefore, SMEs are likely to organise training for employees in this respect.

2.6.4.4 Work-life balance

Firms engaging in employee-oriented CSR recognise that every employee experiences conflicts between their private and working lives (Crane & Matten, 2004; McMillan *et al.*, 2011). Currently, this issue is even more pressing than in the past because of the increasing participation rates of women and because of the increase in single-parent households. Research indicates that the majority of employees struggle with satisfactorily combining work life with private life (Frenkel, 2005; McMillan *et al.*, 2011). Work-life programs intended to support employees in attaining a balance between private and work life can, therefore, be expected to result in less turnover and absenteeism, increased work effort, and the like (Konrad & Mangel, 2000). This reciprocative employee behaviour is more likely to occur if employees perceive work-life programs to be based on owner-managers' other-regarding values.

Flexibilisation is often argued to create a valuable instrument for balancing private and working lives. However, in practice, flexibilisation of working times may be exclusively exploited to further the company's interests (Bryson & Karsten, 2009). In this respect, it is important to realise that flexibility ultimately represents the capacity to adapt to change, for instance, to the change in the private life of employees. Flexibility with regard to the number and times of working hours may achieve a more favourable balance between private and working life. To be characterised as employee-oriented CSR, flexibility must be for the employee, not only of the employee (Bryson & Karsten, 2009).

2.6.4.5 Workplace conditions

The final HR cluster of working conditions comprises job design, work stress, and health and safety issues. Job design encompasses the level of discretion allowed and job rotation, i.e., the number of different tasks performed by the worker. Job discretion entails the individual employee's right to organise their job activities based on their superior job knowledge. Discretion is suggested to align employee and organisational interests since it enhances employees' sense of responsibility and willingness to put forth effort as well as a feeling of autonomy or the job's attractiveness and the feeling of appreciation by management which contributes to employees' self-respect (Crane & Matten, 2004). Job rotation accompanied by training creates interesting work and positively contributes to employment security (Pfeffer, 1994). Additionally, employees acquire more insight into the coherence of the production process which enables them to put their knowledge of the tasks to more effective use (Gant *et al.*, 2002).

Health and safety issues as well as job stress correlate strongly with perceived organisational fairness (Edgar & Geare, 2005; Freeman & Rogers, 1999). Health comprises both psychic and physical health. Employee evaluation, in this respect, is negative for low-wage systems and hard HRM because they are both based on low management attention toward health and safety issues and a focus on work intensification resulting in increased job stress (Frost, 2008). Certain research suggests that soft HRM may also lead to increased job stress due to work intensification (Guest, 2008; Legge, 1998; Ramsay *et al.*, 2000).

2.6.5 Employee-oriented CSR: firm outcomes

As is already implied in the previous sections, with regard to the conditions under which firms are able to turn their people into an actual source of competitive advantage, Berman *et al.*'s (1999) finding that the quality of the relationships with employees directly affects firm performance is quite relevant. This, in its turn, implies that the functioning of employees is affected by the organisational climate within a firm. The nature of the organisational climate determines whether people cooperate in an atmosphere of mutual trust toward a common goal on the one end of a continuum or, on the other end of the continuum, in an atmosphere where self-interest and distrust are prevalent which results in loss of synergy

and undeniable obstruction (Barney, 1986; Wright *et al.*, 1994). Synergy between individual efforts also complicates identification of the exact location of the source of competitive advantage, especially when many people with different types of skills and behaviours interact with one another which, in this way, adds social complexity (Wright *et al.*, 1994). An organisational climate that is positive and respectful towards employees has been demonstrated to elicit the commitment of employees and to facilitate collaboration (Lee & Miller, 1999). This makes the organisational climate an additional potential source of competitive advantage (Barney, 1986).

In order to work beneficially for both parties, the employment relationship should be based on mutuality, i.e., the extent to which employer and employees' interests are aligned (Boxall, 1998). Mutuality comprises both social exchanges based on reciprocative behaviour with respect to open-ended and unspecified obligations and on economic exchanges representing specified quid pro quo transactions (Coyle-Shapiro & Shore, 2007; Konrad & Mangel, 2000). While trust necessarily underlies social exchanges, this is not necessarily true for economic exchanges. Furthermore, social exchange, in contrast to economic exchange, requires investment in the relationship. Finally, social exchange implies a long-term orientation while economic exchange is generally characterised by a short-term orientation (Coyle-Shapiro & Shore, 2007).

Argumentation in accordance with both stakeholder theory and resource-based perceptions points to the significance of social exchange and trust in the employment relationship. The corollary from stakeholder theory is that the SME owner-manager must be capable of taking the needs and interests of employees into consideration such that employees perceive this policy to be sincere. Employees will subsequently reciprocate this in their behaviour towards the firm. Such behaviour is, in the strategic HRM perception, conditional for employees to function as a potential source of competitive advantage.

2.7 CONCLUSION

The objective of this chapter has been to appraise the relevant literature in the framework of employee-oriented CSR and to identify the gaps that prevent a more complete understanding of this issue. The general phenomenon of CSR has been concocted as a normative response to the dominance of shareholder

thinking characterised by a short-term orientation on profit and on shareholder wealth maximisation by emphasising that firms' economic activities also have social consequences which do not always work out to the common good, i.e., the good for society in its entirety. In CSR, firms' social performance is perceived as equally important as their economic performance. To accomplish this, firms' organisational climates must emanate CSR thinking and act as an integral component of their business processes. This behaviour may also lead to positive economic consequences for firms. However, for these consequences to be sustainable, the firm's engagement in CSR must rest on a normative foundation.

CSR appeals to companies to take their responsibility toward society. Unfortunately, responsibility toward society is too broad a construct to be feasible. The stakeholder perception of the firm facilitates specification in the sense of identifying specific responsibilities for specific stakeholder groups. CSR, in terms of responsibility towards stakeholders, entails that firms take stakeholder needs and interests into consideration when formulating their strategies and performing their activities. The position of employees as stakeholders in the firm, however, is under-researched, if not neglected. This is remarkable since there is a consensus that employees are salient stakeholders in, by far, the greatest part of companies. Moreover, the current trends to reduce the welfare state and employment protection make studying the position of employees as stakeholders even more acute.

Based on other-regarding values and employee power – as proxy for self-regarding values – as dimensions, four types of employee relations have been identified including paternalism, the low-wage system, HRM-based arrangements, and employee-oriented CSR. In employee-oriented CSR, all employee categories are considered essential for achieving competitive advantage, therefore, it is the only type of employee relations arrangements leading to real 'synergy' between other- and self-regarding values. The other-regarding values component makes employees feel secure and respected which leads to increased commitment and, consequently, to greater employee performance. Moreover, other-regarding values embody the concept that employees do not only function as a resource for production but are also people. They are dependent on their jobs for their economic livelihood, they invest a significant portion of their lives into their jobs, and their jobs provide them with social contacts.

In respect to self-regarding values, the relevant fact is that employees are a potential source of competitive advantage, especially in the modern era in which advantages stemming from technological innovation are ever more fleeting and tran-

sient due to rapid dissemination and imitation through information technology. In contrast, employees, to a much larger degree, meet the RBV's central inimitability condition for developing sustainable competitive advantage. Employee information can be critically significant to product, process, and organisational innovation resulting in increases in efficiency and quality. Yet, employees may fear that firms will abuse their information to meddle with their employment security and other working conditions.

First, this implies that, when firms cater for those employees' needs and interests which directly or indirectly are connected to their working life, a policy's credibility is strengthened by perceived value-based foundations. This generates the mutual trust required to create loyalty and commitment among employees and will preclude fears among them that management will misuse information provided by them. Second, employees should also profit by participating in the economic rent that is created in this manner. Whether this will emerge will depend on employee power and management's distribution policies. In this regard, SME owner-managers occupy a special position. Compared to the CEOs of listed corporations, owner-managers possess far more freedom to design and implement employee-oriented CSR since they do not need to provide reasoning for their actions to external shareholders.

When employee-oriented CSR is transferred to subsidiaries in foreign countries, firms must take into consideration that various demands may be placed on the nature and content of employee-oriented CSR in the host country's institutional environment. This may require translation of employee-oriented CSR policies and practices from the home country's institutional environment to that of the host country. In this respect, the findings and insights of the neo-institutionalist and national business systems perspectives are relevant.

Neo-institutionalism maintains that policies and practices need legitimate status in the host country institutional environment in order to be socially acceptable. Legitimacy is defined by a country's regulative, normative, and cognitive institutions. According to the national business systems perspective, employment relations are a component of a broader framework of complementary institutions that collectively shape the logic of the economic process in a country. Employee-oriented CSR must be modelled such that it fits a particular national business system and has legitimacy in the business system. In addition, the nature of the business system affects the freedom that management possesses in designing the company's personnel strategies, policies, and practices.

This also pertains to the debate to what extent personnel policies and practices over time converge between countries. In the EU, a powerful convergence incentive emanates from EU directives and other direct and indirect central EU regulations in the framework of the so-called European social model. However, to date, the development of personnel practices in the various EU countries appears to be heading in the same direction without, however, resulting in complete convergence.

In the event that multinational SMEs wish to transfer employee-oriented CSR to foreign subsidiaries, they must consider the differences between the home and host country institutional environments. Bridging the institutional distance between the parent company and the foreign subsidiary, therefore, requires institutional entrepreneurship since, if the transferred practice is to fulfil the expected results in the new environment, adaptation of the practice and/or institutional change in the foreign subsidiary is required. To achieve this, the institutional entrepreneur needs institutional capital – insight into the normative, cognitive, and regulative institutions affecting the position, role, and use of employees and the capability to act on that insight. Institutional entrepreneurship is especially relevant for multinational SMEs because they lack the resources, financial and otherwise, to increase expertise in staff to address institutional differences. In this aspect, multinational SMEs are much more dependent on the capabilities of the owner-manager than their large counterparts are on their CEOs.

Multinationals are ideally positioned for institutional entrepreneurship. They operate in multiple institutional environments which makes them more appreciative of the differences between institutional environments and more aware of advantages and drawbacks of the arrangements in a particular institutional environment. Second, and this is relevant for multinational SMEs in particular, they are less established in the institutional system and, therefore, experience greater freedom than national business actors.

The analysis of the literature evidenced a number of gaps with respect to introduction and implementation of employee-oriented CSR in multinational SMEs that must be addressed in this thesis. First, although there has been very extensive research on (the managerial implications of) corporate social responsibility, the stakeholder perception of firms, and the strategic HRM perspective, by far, most attention has been focussed on larger firms and corporations, leaving SMEs only minimally researched (Lindgreen & Swaen, 2010). Nonetheless, SMEs are not ‘little big firms’ to which findings on larger firms seamlessly fit. Furthermore,

several authors (Mankelow, 2008; Pfeffer, 2010; Wood, 2010) notice that employee-oriented CSR is conspicuously omitted from CSR research despite the general consensus in the literature that employees are relevant stakeholders for the firm because they both affect and are affected by the firm's strategies, activities, and behaviour. The relevance of employee-oriented CSR is especially relevant for SMEs considering their expected orientation toward short-term profit because of competitive pressures.

Third, there is an extensive literature regarding the nature and transfer of human resource management strategies, policies, and practices within multinational enterprises, however, in this respect, research has been almost exclusively confined to the situation of large multinationals. Fourth, international transfer of personnel strategies, policies, and practices requires institutional entrepreneurship to be exercised by multinational SMEs' owner-managers. Institutional entrepreneurship is a relatively new area within neo-institutionalism. To date, there has been little research on the role of institutional entrepreneurship in the international transfer of personnel policies. Finally, the key issue of this thesis, i.e., the interaction between other-regarding and self-regarding motives for SME owner-managers to implement and internationally transfer employee-oriented CSR, requires combining the stakeholder, strategic HRM, neo-institutionalist, and national business systems literatures. To the best of my knowledge, this has not yet occurred.

CHAPTER 3

A CONCEPTUAL MODEL OF THE INTRODUCTION AND TRANSFER OF EMPLOYEE-ORIENTED CSR BY MULTINATIONAL SMEs

3.1 INTRODUCTION

The review of the relevant stakeholder view, strategic HRM, and institutionalist literature in Chapter 2 has revealed that the issues affecting introduction, transfer, and implementation of employee-oriented CSR by multinational SMEs have, as yet, not been systematically addressed. Though individual aspects of employee-oriented CSR have been the subject of somewhat extensive research, for instance, the international transfer of personnel strategies, policies and practices, the majority of this research focuses on large corporations (Lee, 2008; Lindgreen & Swaen, 2010). The central tenet of the SME literature, however, is that small and medium-sized enterprises differ so significantly from large firms that it is not possible to simply confer research findings for the latter group to SMEs (see e.g., Curran & Blackburn, 2001; Storey, 1994; Tilley & Tonge, 2003).

In Section 3.2, based on the description of the content and nature of employee-oriented CSR in Chapter 2, I design a conceptual model of introduction, transfer, and implementation of employee-oriented CSR within multinational SMEs from which I derive propositions that are tested in the empirical research. Chapter 2 has demonstrated that employee relations arrangements can be categorised according to the fundamental specific composition of the owner-manager's other-regarding values and employee power. On the basis of this categorisation of employee relations arrangements, Section 3.3 develops the basic proposition of the conceptual model wherein there is a positive relationship between employee salience and introduction and the transfer of employee-oriented CSR.

Subsequently, in Sections 3.4, 3.5, 3.6, and 3.7, additional propositions of the conceptual model are elaborated. Section 3.4 addresses the relationship between

owner-managers' transfer intent and perceived institutional distance while Section 3.5 broaches the issue of whether and to what extent owner-managers employ institutional entrepreneurship in transfer practices. In Section 3.6, both employee perception of the firm's employee relations arrangement and the employee outcomes of that arrangement are studied. Section 3.7 concerns the possible association between employee appreciation of the employee relations arrangements and employee performance. Finally, Section 3.8 provides a conclusion.

3.2 DEVELOPMENT OF THE CONCEPTUAL MODEL

Lepoutre and Heene (2006) argue that differences in the approach of CSR between large corporations and SMEs are related to differences regarding issue, personal, organisational, and contextual characteristics. SMEs pay significant attention to issues concerning primary stakeholders including employees and customers in ways that are determined by the value systems of the owner-manager, the power of the primary stakeholders, the available firm resources, and the economic and institutional environment of the firm. It is not coincidental that these differences in the approach of CSR between SMEs and large corporations correspond with Matten and Moon's (2008) distinction between implicit and explicit CSR. Because of their size, SMEs can exercise only minimal power within their economic and institutional environments (Gellert & De Graaf, 2012). They generally possess too few resources to launch publicity campaigns concerning their CSR activities. Besides, they are inclined to perform CSR activities out of a belief that it is correct to act in this manner; likewise, they tend to perceive publicised CSR activities by large corporations as being overly marketing-inspired, and they prefer to not be associated with concepts perceived as false favourable impressions (Hoevenagel & Bertens, 2007; Hoevenagel, 2004). With regard to the content of CSR, Hoevenagel (2004) ascertained that Dutch SMEs associate taking social responsibility as balancing profitability, social sustainability, and environmental sustainability in their business policies and processes. This again implies that SMEs are predominantly concerned with issues affecting their primary stakeholders and those they feel can be influenced.

In considering the introduction and transfer of employee-oriented CSR, three factors, apart from employee salience, play a role:

1. proximity,

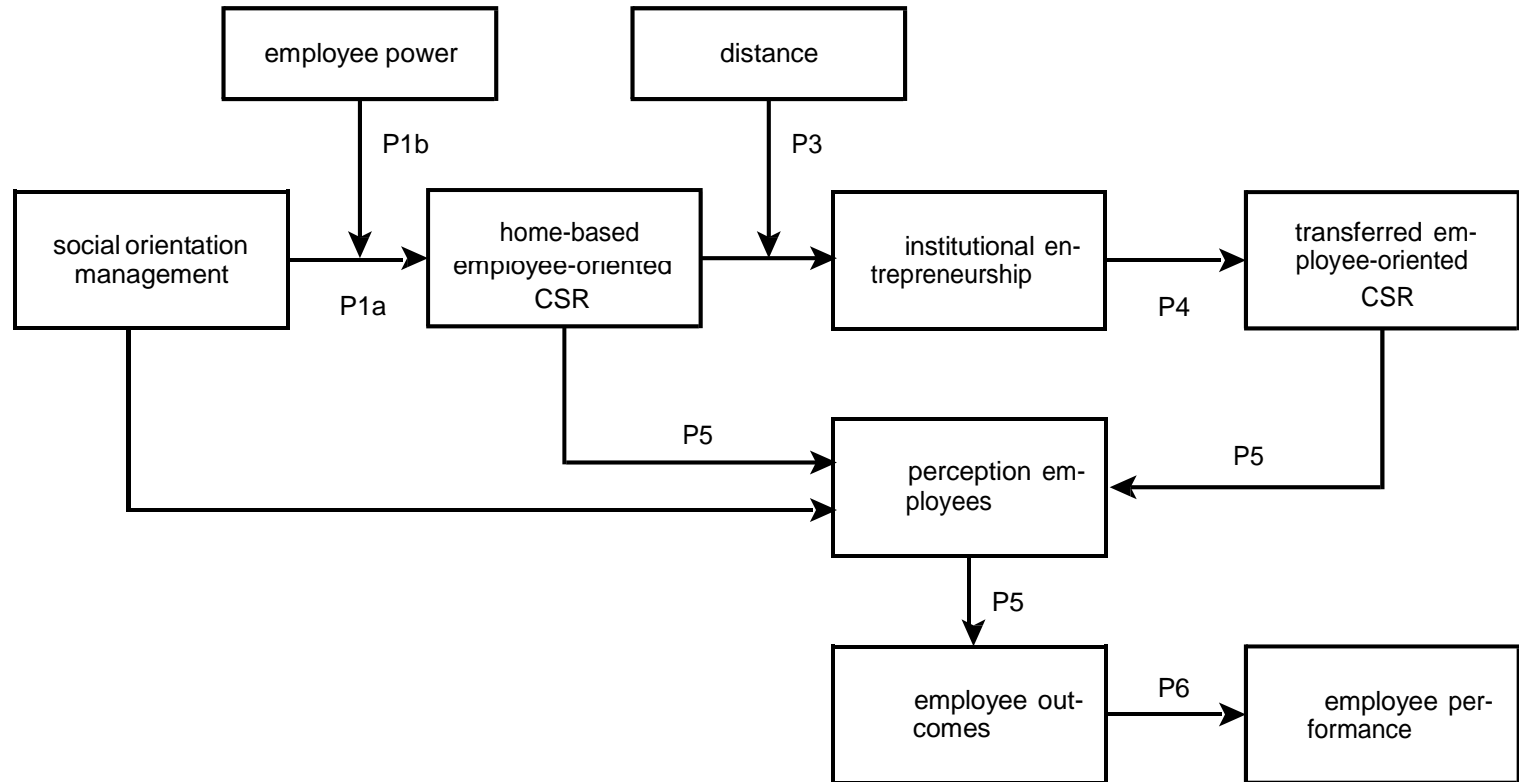
2. institutional distance, and
3. institutional entrepreneurship.

First, employee salience determines the extent to which owner-managers of multinational SMEs consider their employees both abroad and at home to be salient stakeholders in the firm and whose needs and interests, as an end in itself, should be incorporated into the firm's employee relations arrangement. However, whether employee salience is translated into action by the owner-manager is influenced – besides by the perceived urgency of employee claims – by geographical and socio-cultural employee proximity (Campbell *et al.*, 2012; Driscoll & Starik, 2004; Lepoutre & Heene, 2006). Both geographically and socio-culturally, the home country proximity of owner-managers and employees is much greater than the host country proximity of owner-manager and subsidiary employees. Relatively frequent personal contact increases the probability of responsiveness to employee needs and interests. This argument implies that owner-manager responsiveness to the needs and interests of host country employees may be insufficient.

Second, owner-managers' perception of the institutional distance between home and host country with respect to the employment relationship and the herein implied level of the difficulty of transfer affects their transfer intent of employee-oriented CSR. Thirdly, transfer mode and extent are influenced by the level of the institutional entrepreneurship of owner-managers. Introduction and transfer of employee-oriented CSR that is perceived and experienced as such by employees may positively affect employee performance in both the home and host countries. Figure 3.1 presents a broad outline of these three factors, their interrelationships, and the manner in which they are related to employee performance.

High salience of employees based on the owner-manager's other-regarding values and on employee power induces home-based employee-oriented CSR. Dependent upon subsidiary employee power and institutional distance, employee-oriented CSR is transferred to the host country. Whether employee-oriented CSR results in positive employee outcomes as well as positive firm outcomes is, to a large extent, determined by the way in which employees perceive and appreciate the owner-manager's value system in terms of sincerity. The subsequent sections provide a more detailed elaboration and discussion of this model resulting in propositions regarding the introduction, transfer, employee outcomes, and employee performance effects of employee-oriented CSR.

Figure 3.1 **A conceptual model of introduction and international transfer of employee-oriented CSR by multinational SMEs**



3.3 EMPLOYEE SALIENCE AND EMPLOYEE RELATIONS ARRANGEMENTS

Engagement in employee-oriented CSR is motivated, to a large extent, by the personal, other-regarding values of owner-managers and, to a lesser degree, by the owner-managers' self-regarding conviction that committed and resourceful employees can be attracted and retained in this manner (European Multistakeholder Forum on CSR, 2004; Hammann *et al.*, 2009; Hoevenagel & Bertens, 2007; Mandl & Dorr, 2007). Many authors, e.g. Hammann *et al.* (2009), Jenkins (2006), Spence (2007) and Hoevenagel & Bertens (2007) have ascertained that SME owner-managers considered employees as their most salient stakeholders. Compared to large companies, SME stakeholder relationships with employees are often characterised by greater trust, informality, and personal engagement (Jenkins, 2006). I expect SMEs to act more responsibly due to their legitimacy with certain stakeholders such as employees, being in question more directly and personally than is the case for large corporations (Fuller & Tian, 2006). This is substantiated by the fact that SMEs are generally managed by their owner-managers who do not have to be concerned with external shareholders.

Firms employ various categories of employees who possess different degrees of power. Employees perceived by the firm to have relatively great power can exert pressure on that firm to take their needs and interests into consideration when designing HR practices and policies (Van Buren *et al.*, 2011). Other employees, however, are dependent on the benevolence of the organisation in this regard (Van Buren *et al.*, 2011). Based on these different degrees of power, firms may make a distinction between strategic core employees and peripheral employees. They utilise HRM-based system practices to retain their valuable core employees and apply a low-wage arrangement for the expendable rank and file (Van Buren *et al.*, 2011). In contrast, owner-managers engaging in employee-oriented CSR apply this arrangement to all employees without discriminating between core and peripheral employees.

The distinction between strategic core employees and peripheral employees may also apply to the parent company and subsidiary employees as distinct categories. In this respect, the investment motive may be an explanatory factor since the investment motive relates to the power of host country employees and, therefore, may affect the extent to which employee-oriented CSR is transferred abroad. The knowledge, skills, and capabilities of employees are of more significance in

the event of market seeking and asset seeking considerations than in the event of efficiency seeking considerations (Gamble, 2010; Whitley, 2005). In firms with employee-oriented CSR, both groups are deemed essential for organisational success despite the power differences between the two groups.

These considerations lead to the following propositions:

Proposition 1a: *The owner-manager's other-regarding values relative to employees as stakeholders positively affect the introduction and transfer of employee-oriented CSR.*

Proposition 1b: *Employee power positively moderates the effect of management's other-regarding values on the introduction and transfer of employee-oriented CSR.*

The owner-manager's other-regarding values are measured as the extent to which design and practices of the employee relations arrangement are established for employees' needs and interests as an end in itself. This is specified through the owner-manager's position regarding employee needs and interests as the basis for the firm's personnel strategy, the feeling of moral responsibility towards employees, the absence of non-functional different treatment of the various employee categories, and the significance attributed to mutual trust between company management and the workforce. Employee power is measured by the importance that the owner-manager attaches to (development of) employees' KSAs with regard to the firm's competitive position; the presence of a collective bargaining agreement governing the terms of employment; the perceived stringency of labour legislation and enforcement; and by the existence of a works council.

3.4 TRANSFER INTENT AND DISTANCE

In general, MNEs, including multinational SMEs, may decide to transfer employment practices for several reasons. First, successful experience with specific practices results in a desire to replicate this success abroad. Second, companies transfer policies if they believe them to be superior to comparable host country policies. Third, MNEs may decide to establish a common corporate culture resulting in comparable organisational climates in their subsidiaries. Possessing a common HR policy may support this ambition by instilling a sense of equality and

fairness into the workforce between the various foreign subsidiaries. Finally, owner-managers may perceive international standardisation of certain practices as an ethical requirement (Dickmann, 2003; Farndale & Paauwe, 2007; Myloni *et al.*, 2004). The latter two reasons are expected to be most relevant for this thesis. If owner-managers of multinational SMEs consider all of their employees as salient stakeholders in the firm, regardless of whether they are employed in the home country or in the host country, they are inclined to standardise their personnel practices company-wide and to strive for an organisational climate within their subsidiaries that is comparable to the parent company.

I contend that transfer intent based on the salience of employees as stakeholders is mediated by proximity and perceived institutional distance (Agle *et al.*, 1999; Driscoll & Starik, 2004; Kostova, 1999). Subsequently, the impact of these two factors on an owner-manager's transfer intent is moderated by the investment motive, the investment mode (brownfield or greenfield), and the subsidiary's ownership structure. Proximity of foreign subsidiary employees is restricted due to geographical and socio-cultural reasons. Lower proximity of foreign subsidiary employees may result in less urgency for the international transfer of employee-oriented CSR. This effect may also be substantiated by a perceived greater (financial) risk in investing in host country employee-oriented CSR (Campbell *et al.*, 2012). Lower geographical proximity implies that, because of the geographical distance, the owner-manager is physically present much less often in the subsidiary than in the parent company. Significant geographical distance results in fewer interactions with subsidiary employees and, thus, fewer opportunities to become acquainted with subsidiary employees' needs and interests.

Even more important than geographical distance is institutional distance. The cognitive and normative aspects of institutional distance incorporate the socio-cultural component in the proximity concept. Institutional distance is expected to make the transfer of employee-oriented CSR problematical if owner-managers perceive the host country's cognitive and normative institutions as not conforming to the foundations of employee-oriented CSR – mutual trust, free use of voice, transparency, and a positive relational atmosphere (Lämsä & Pucetaite, 2006). This is aggravated if the social and power distance between management and the workforce in the host country – expressed in the significance of hierarchical status in their mutual relations within companies – is perceived to be excessive (Fox, 1974; Jackson & Deeg, 2008). Home country institutional pressures are channelled through the relational context between parent and subsidiary (Kostova & Roth, 2002). This prevails, in particular, for multinational SMEs since, in

the literature, the relational atmosphere is argued to be more important than formal arrangements for SMEs in shaping policies.

Kostova and Roth (2002) contend that the character of the relational atmosphere is dependent upon the subsidiary's level of dependence, trust, and identity in relationship to the parent company. Dependence refers to the degree of subsidiary dependence on parent company resources and, thus, the balance of power between parent and subsidiary. Trust is indicative of the perceived reliability of the parent while identification concerns the degree to which subsidiary employees feel included in the parent company organisation. Kostova and Roth (2002) ascertained that dependence negatively affected transfer while trust and identification demonstrated a positive effect. The propensity to exhibit trust in the parent company is positively correlated with the presence of institutions supporting trust within a country. Countries, however, are very different in this aspect. In the event that such institutions are nonexistent, owner-managers must build trust upon the basis of personal relationships. Without institutional support, trust that is gained in this manner is fragile (Nooteboom, 2007). Additionally, I expect the impact of dependence, trust, and identity on the character of the relational atmosphere to be mediated by the mode of investment and the subsidiary's ownership structure.

A complicating factor is that, as employee relations arrangements are value-based, this entails that they are imbued with context-dependent values, beliefs, and meanings. The resulting non-generalisability between national institutional environments impedes international transfer of these arrangements and the practices contained within them (Mohan, 2006). Therefore, transfer is dependent on the transferability of values and meanings (Kostova, 1999). This implies that transfer of value-based arrangements and practices may also be confronted with internal barriers and conflicts during the transfer process. Precisely because employee relations arrangements and their practices are value-based, there is an increased potential for conflict during transfer since values bear symbolic importance for the actors involved. Particular values which are transferred from the home country setting to the host country setting may cause resistance in the foreign subsidiary (Blazejewski, 2006; Kostova & Roth, 2002).

Host country regulative institutions may form an obstacle for transfer of specific HR practices, e.g., with regard to payment systems or the utilisation of flexible labour contracts. Normative institutions, such as work norms developed over time through education, training, and experience in organisations may enforce local

isomorphism, particularly if the underlying values of the practices to be transferred oppose the host country values (Dickmann, 2003; Gooderham *et al.*, 2006). For instance, many companies in emerging economies consider workers expendable because of the employees' diminished bargaining power. Consequently, workers in emerging economies generally have no positive expectations about their employers (Yang & Rivers, 2009). These considerations collectively lead to:

Proposition 2: *Geographical and institutional distance moderate the owner-manager's transfer intent of employee-oriented CSR.*

Geographical distance is measured by the number of times the owner-manager visits the subsidiary. The regulative aspects of institutional distance are measured by the stringency of the host country labour law and its enforcement and by the strength of union power. Normative institutional distance is measured by the perceived role of hierarchy in host country organisations while cognitive institutional distance is measured by the propensity to trust, to take initiative, and to use voice. Furthermore, cognitive institutional distance is measured by the parent company's liability of foreignness.

3.5 INSTITUTIONAL ENTREPRENEURSHIP AND TRANSFER RESULT

Four factors can be distinguished that affect the transfer of HR practices from the parent company to its subsidiary:

1. the power relations in the multinational SME,
2. the level of institutional capital embodied in the owner-manager,
3. the geographical and institutional distance between home and host country, and
4. the existing employee relations arrangement in the subsidiary.

Power relations play a role in the event that the transfer of practices of employee-oriented CSR creates resistance by or meets with incomprehension of subsidiary management and/or subsidiary workforce, in particular when values incorporated into these practices oppose the host country's cognitive and normative institutions. Consequently, power relations between parent and subsidiary exert significant influence on the transfer process (Ferner *et al.*, 2005).

Ferner and colleagues (2012) differentiate between three dimensions of the power of actors affecting the transfer process: power of resources, power of decision-making processes, and power of meaning. Subsidiary power of resources is based on, first, subsidiary management knowledge of the local institutional environment and, second, the investment mode. In a brownfield establishment, transfer may threaten established interests and, therefore, cause resistance. For the parent company, transfer to a greenfield establishment is easier than to a brownfield establishment since it can gradually construct its own practice architecture in a greenfield establishment while, in a brownfield establishment, practices are already in place. Knowledge of the institutional environment enables subsidiary managers to act as ‘interpreters’ on behalf of the parent company (Tempel *et al.*, 2006). Power of decision-making processes arises when there is an inclusion of subsidiary management in the company’s overall policy-making process. New policies are the subsequent result of collective decision-making which reduces the subsidiary’s inclination to resist the introduction of new practices (Ferner *et al.*, 2004).

The power of meaning is especially crucial when examining the institutional environment’s influence on the transfer process. Power of meaning is associated with the neo-institutionalist concept of cognitive and normative pillars underpinning institutional arrangements. Actors with power of meaning legitimise their demands and delegitimise others’ demands by manipulating the cognitive and normative institutions in the internal organisational environment to their advantage (Hardy, 1996). Transfer reveals the contrast between the internal institutional environments of parent and subsidiary. As a result, engrained routines and ways of acting and thinking become less obvious which enables exercising agency. A situation with conflicting normative and cognitive institutions is resolved by employing power of meaning (Ferner *et al.*, 2012). Conflict of normative and cognitive institutions between parent and subsidiary arises from the fact that they are embedded in divergent national business systems (Edwards *et al.*, 2007).

With regard to the design of the employee relations arrangements in their foreign subsidiaries, owner-managers of multinational SMEs can select between HR practices embedded in the host country’s institutional environment or HR practices embedded in the parent company’s institutional environment. In so far that they attempt to transfer parent company practices by employing their institutional capital in order to bridge the geographical and institutional distance between parent company and foreign subsidiary, they can be considered institutional entrepreneurs (Battilana *et al.*, 2009; Cantwell *et al.*, 2010; Scott & Lane, 2000). This implies that these owner-managers can conceive the parent company employee relations

arrangement as an alternative to those already existing in their subsidiaries as well as the outcomes of alternative arrangements compared to those of the existing arrangements (Weishaupt, 2011). Transfer entails either efforts to adapt the subsidiary's internal institutional environment to home country practices or adaptation of home country practices to comply with the host country institutional environment.

Owner-managers of multinational SMEs acting as institutional entrepreneurs are supposed to possess sufficient institutional capital to be capable of assessing the current institutional environment of their companies. Based on this assessment, they are able to challenge existing normative and cognitive institutions in their foreign subsidiaries and institutionalise new normative and cognitive institutions (Pacheco *et al.*, 2010). This entails that the institutional entrepreneur employs power of meaning in presenting institutional change, first, by visualising the issues that the projected change is expected to resolve; second, by explaining why the envisaged change is preferable to existing arrangements; and, third, by motivating the proposed change by convincingly providing compelling reasons for this change (Battilana *et al.*, 2009). Motivation is strongly supported if the institutional entrepreneur has a clear understanding of the new destination and the way in which to get there (Greenwood & Hinings, 1996). Being located in different institutional environments, as is the case for multinational SMEs, stimulates the development of institutional entrepreneurship (Thornton & Ocasio, 2008).

A covert hazard which threatens transfer success is that practices are transferred incompletely, i.e., they are transferred without the complementary practices that facilitated their success in the home country environment and, thus, form an essential requirement for the practice's success. Frenkel (2008) provides an example of a Swedish MNE transferring a participation system to its Mexican affiliate without transferring the complementary egalitarian Swedish wage system as well. Consequently, the minimal distance between hierarchical levels in the company, which was required for successful participation, was not attained in Mexico.

In this respect, it is important to realise that practice transfer does not entail the relocation of the practice itself but rather conveyance of the practice's representation as embodied in the owner-manager's explanation of the practice. This implies that the distance between parent and recipient subsidiary must be bridged by the translation of that account (Sahlin-Andersson & Engwall, 2002a). This is accomplished in terms, references, categories, and classifications that are familiar to the

recipient. Institutional entrepreneurship then consists of the ability to link the context of the parent to the context of the receiving subsidiary (Sahlin-Andersson & Engwall, 2002b). During this process, the institutional entrepreneur employs power of meaning by translating the relevant symbols and practices from the parent company's institutional environment to the subsidiary's institutional environment (Thornton & Ocasio, 2008).

Accordingly, transfer success can be evaluated on the basis of three criteria:

1. implementation,
2. internalisation, and
3. integration.

Implementation indicates that the rules of the practice are actually followed by the subsidiary. Internalisation implies that the practice is accepted by and has acquired a taken-for-granted status by subsidiary employees. The practice is then a component of employees' organisational identity. Finally, integration indicates the degree to which the practice is incorporated in the overall processes of the subsidiary (Björkman & Lervik, 2007; Kostova, 1999). This leads to:

Proposition 3: *Institutional entrepreneurship positively affects transfer of employee-oriented CSR.*

The basis of institutional entrepreneurship is dependent upon the owner-manager's capability to develop insight into the relevant institutional differences between home and host country. The owner-manager is expected to exercise institutional entrepreneurship through power of meaning and power of decision making. Power of meaning is measured by the owner-manager's capability to emphasise relevant host country institutional deficiencies at the organisational level, the initiation of institutional change at the organisational level, and the implementation of institutional change at the organisational level. Power of decision-making is measured by the ownership structure of the subsidiary.

3.6 EMPLOYEE PERCEPTION AND OUTCOMES OF EMPLOYEE-ORIENTED CSR

I contend in accordance with Wright and Nishii (2007) that the intended effect of the employee relations arrangement on employees' efforts and attitudes is moderated through the way employees perceive and appreciate the owner-manager's value system underlying the employee relations arrangement and through the extent in which employees experience the resulting organisational climate and practices to meet their needs and interests. According to Guest (2002), research on employee outcomes as an end in itself of an employee relations arrangement rather than a means to increase firm performance is insufficient. A few exceptions are studies by Edgar and Geare (2005), Freeman and Rogers (1999), Harley, Sargent and Allen (2010), and Rupp (2011). Such research incorporates employees' perceptions regarding the results of HR practices and instruments for employees themselves. Not only employee outcomes regarding satisfaction with work and organisational climate are relevant in this aspect but also employee satisfaction with employment security and the way firms deal with tensions between the working and private lives of employees.

Guest (2008) – exploiting the data of the ISSP survey of 1997 – investigated the antecedents of job satisfaction, employment security, and work-related stress as employee outcomes of firms' HR strategies and practices between a significant number of countries. Job satisfaction is the best available general measure of employees' well-being in relationship to their working lives. Employment security and work-related stress affect the general well-being of employees. Guest (2008) demonstrated that, overall, the vast majority of employees were satisfied with their jobs. Variation was determined to be mainly dependent on having an interesting job and having positive relationships with management. Job attractiveness correlated positively with job discretion. Positive relationships with management entailed that management overtly takes notice of the tension between working and private life, that it treats employees fairly, and that it acts supportively (Guest, 2008).

In Eastern European countries, primary subsistence needs such as employment security and pay figure more prominently into employees' conceptions of job attractiveness than in Western Europe (Alas & Rees, 2006; Borooah, 2009). This implies that the content, not the nature, of employee-oriented CSR may differ between the parent company and its subsidiary. Furthermore, the level of job satisfaction is gen-

erally higher in Western Europe than in Eastern Europe (Borooah, 2009; Guest, 2008). These arguments make job satisfaction a key indicator of positive employee outcomes of a firm's employee relations arrangement and of possible differences between parent company and subsidiary employee outcomes. Employment security is ascertained to be positively correlated with experienced well-being. Employee assessment of organisational climates and HR practices affect both their sense of satisfaction and well-being and their behaviour towards the firm (Guest, 1999). Rupp (2011) discovered that employees' perceptions of organisational justice positively affected job satisfaction and negatively influenced turnover intentions and avoidance behaviour.

Work-related stress, on the other hand, is a key indicator of negative employee outcomes of the firm's employee relations arrangement. In this aspect, it is important to distinguish between the firm's job demands and the employee's level of control over work intensity. Stress is greatest for those facing high demands while having little control. Of these two factors, control appears to be the most significant. This implies that especially employees with little job discretion will experience negative consequences from work stress (Guest, 2008). This is aggravated by the perception of employees in low-discretion jobs that they are perceived by management purely as instruments to achieve the company's objectives. In the event that this is accompanied by a perception that management distrusts their ability to contribute willingly to company objectives, employees will respond by developing diminished trust in management (Fox, 1974). This is corroborated by Knudsen *et al.*'s (2011) finding of a strong negative correlation between the perceived quality of the working environment and a desire for more influence.

Thus, job discretion increases work's meaningfulness for employees which makes them feel as if they beneficially contribute to the achievement of the organisation's objectives (Hodson & Roscigno, 2004). Job discretion, since it entails delegation of authority and sharing of information, conveys to the employee the concept that the manager trusts the employee to utilise this discretion to the benefit of the company (Lester & Brower, 2003). Consequently, job discretion and the perception of being trusted result in greater job satisfaction and increased employee commitment to the organisation. This is in accordance with the argument of many authors that it is very important to employees to have the opportunity to express themselves in matters which concern them directly (see e.g., Dundon *et al.*, 2005; Edgar & Geare, 2005; Farndale *et al.*, 2011; Freeman & Rogers, 1999).

In the Netherlands, SMEs with over 50 employees are legally obliged to establish a works council. Compliance with this obligation correlates positively with firm size. Whereas, in 2008, only 52% of companies with 50-74 employees had installed a works council, this percentage rises to 95% for companies with over 200 employees (Visee & Mevissen, 2009). Works councils are suggested to positively affect employee acceptance of management decisions because works councils coerce management to more carefully consider the content and impact of their decisions (Wigboldus *et al.*, 2008). However, the positive effect on employee acceptance of management decisions will only occur if the works council is itself convinced of their appropriateness and justness and can simultaneously convince the workforce of management's positive intentions (Jirjahn & Smith, 2006). Thus, employee perception of the functioning of the works council and of management's use of it assists in evaluating the employee relations arrangement that, in the view of the workforce, prevails in the company.

Nonetheless, the majority of SMEs do not have indirect participation in the form of works councils and – if they engage in participation or employee involvement at all – they only apply attributes of direct participation. Wilkinson *et al.* (2007) ascertained that many SME employees are critical of participation initiatives by their firms in the sense that they do not believe that this provides them with opportunities to provide input for decisions. Management appears to conceive participation mostly as some type of downward communication. Still, this definitely did not lead to a negative assessment of their working environment. The great majority appreciated their organisation as informal and relaxed and described their organisation in terms of 'team' and 'family'. This assessment seems to be largely explained by favourable market characteristics and an employee-friendly organisational climate.

The above mentioned research suggests that the other-regarding values of the owner-manager are critical for creating an organisational climate that facilitates the company's employee relations arrangement in generating positive employee outcomes. This implies an employee perception of the organisational climate as being characterised by, first, the free exercise of voice; second, transparency of procedures and practices; and, third, a positive relational atmosphere between management and the workforce (Freeman & Rogers, 1999). Farndale *et al.* (2011) find that employees' perceptions of the organisational climate in a firm and the HR practices employed – with the accompanying concepts of procedural and distributive justice – is moderated by their relationship with the line manager and, in particular, by trust in senior management.

In SMEs, this will be evidenced in trust in the owner-manager. A positively perceived organisational climate and HR practices contribute to trust in the organisation and, thus, to employees' belief that the company's personnel practices are intended to further employee well-being as much as the firm's prosperity. This belief may then even extend to situations in which the firm faces such a significant decline in performance that redundancies are inevitable to secure the firm's survival (Farndale *et al.*, 2011; Winnubst *et al.*, 2009). Therefore, I contend that employee perception and assessment of the employee relations arrangement and the perceived owner-manager's value system upon which the employee relations arrangement is constructed form the basis of the assessment to which extent employee-oriented CSR is being practised in the company.

Proposition 4a: *Employee perception of the owner-manager's other-regarding values positively moderates their satisfaction with the results of employee-oriented CSR.*

Proposition 4b: *The firm's organisational climate and overall HR policy built on the owner-manager's other-regarding values positively moderate the employee outcomes of employee-oriented CSR.*

Employee perception of the owner-manager's other-regarding values is measured by the extent of perceived moral responsibility with respect to the owner-manager. The organisational climate as experienced by employees is measured by the degree of voice they are allowed to exercise, the level of trust prevailing in the organisation, the transparency of the organisation, and by the quality of relationships between management and the workforce. The quality of HR practices, finally, is measured by the extent to which these practices provide for employee needs and interests.

3.7 FIRM OUTCOMES OF EMPLOYEE-ORIENTED CSR

Optimisation of organisational and employee interest alignment are conditional upon the realisation of positive firm outcomes of employee-oriented CSR. Aligning the firm and employee interests is difficult due to the fact that there are several areas in which the interests of both parties conflict. Examples are the distribution of firm income, the possible tension between firm survival and employment security,

and the friction between employee autonomy and employer control. If such conflicts emerge and become evident, they may considerably damage firm performance (Boxall & Purcell, 2007).

Hodson and Roscigno (2004) argue that organisation-level participation practices affect employee commitment to the organisation's objectives and, thus, organisational interest alignment. Subsequently, organisational commitment influences the organisation's long-term competitiveness. If such commitment is to develop to its full potential, employees must first be convinced that the organisation is committed to them (Shore *et al.*, 2006). Brammer (2007) contends that this occurs if employees experience procedural justice as an integral component of the organisational climate. If employees believe the organisational climate to be inimical to procedural justice, they may respond by not producing according to standards and, consequently, even underperform (March & Simon, 1993). This can be considered as an internal form of exit. Underperformance is difficult to prevent since, even under the most stringent control conditions, individual employees have certain freedom to manipulate their contribution to the realisation of organisational objectives (Kamoché, 2007).

Multinational SME owner-managers, therefore, are faced with three important interrelated questions. First, how does employee-oriented CSR affect the overlap of employee and organisational needs and interests? Second, how does alignment of organisational and employee interests differ between national institutional environments? Finally, how does such organisational interest alignment – “the degree to which the members of the organisation are motivated to behave in line with organisational goals” (Gottschalg & Zollo, 2007, p. 420) – appear in employee performance? Employee motivation to behave as envisaged by the organisation is dependent upon the degree to which this behaviour assists employees in achieving their individual objectives and by the significance that employees attach to these personal objectives (Gottschalg & Zollo, 2007). These considerations signify the critical importance of an organisational climate emanating respect for employees and appreciation of their contribution to the company in aligning the interests of employees and organisation. Authors such as Freeman and Rogers (1999) and Guest (2002) suggest that the presence of a worker-friendly organisational climate is of more concern than the application of advanced HR practices. Black and Lynch (2004) also discovered that it is not so much the personnel practices themselves that matter, but it is the manner in which these practises are implemented.

Paying attention to employees' needs, interests, and expectations facilitates companies in building improved relationships with employees (Wood & Jones, 1995). The resulting employee-friendly organisational climate advances employee productivity through greater dedication, effort, initiative, and cooperation (Barney, 1986; Lee & Miller, 1999). It leads to a lower cost of control, greater employee willingness to trust management, increased strategic freedom of management, and greater employee readiness to accept change (Paauwe, 2004). Employee-friendly organisational climates contribute positively to employee competence, teamwork, organisational commitment, and customer orientation (Paul & Anantharaman, 2003). The ensuing social structure of relationships among employees and between employees and management facilitate the transfer of information and knowledge (Gant *et al.*, 2002; Nonaka & Takeuchi, 1995). Whitley (2005) ascertained that companies which do not share information with employees tend to learn less from the employee experience and incorporate technical change at a slower pace. Tsui and colleagues (1997) suggest that employees will repay employers' investment in, for instance, training and employment security with commitment being demonstrated in lower turnover and absenteeism rates. In conclusion, firm outcomes of employee-oriented CSR consist of positive effects on various indicators of employee performance:

1. turnover,
2. absenteeism,
3. labour productivity,
4. problem-solving,
5. improved customer service and
6. innovativeness (Branco & Rodrigues, 2007; Brown *et al.*, 2011; De la Cruz Déniz-Déniz & De Saá-Pérez, 2003; Pfeffer, 1994; Wheeler & Sillanpää, 1998).

This leads to

Proposition 5: Employee satisfaction with the outcomes of employee-oriented CSR in multinational SMEs leads to increased commitment which positively affects employee performance.

The quality of employee outcomes of the employee relations arrangement is measured by the level of job satisfaction, perceived employment security, and the experienced level of job stress. The measures of employee performance consist of employee commitment to the firm, turnover, absenteeism, the propensity to solve problems, and the propensity to take initiative.

3.8 CONCLUSION

Working conditions in SMEs are often depicted as being more inadequate than those in large corporations due to, for instance, comparatively intense competitive pressures in the market or unsophisticated HR strategies and practices. According to this thesis' conceptual model, however, the quality of the employee relations arrangement is dependent on employee salience to (multinational) SME owner-managers. The nature and content of employee relations arrangements are established on the specific mixture of self- and other-regarding values in the owner-manager's value system. Employee-oriented CSR is constructed upon a combination of strong other-regarding values of the owner-manager and employee power stimulating the owner-manager's self-regarding values. A high level of other-regarding values becomes apparent in the owner-manager's belief that fulfilment of employees' needs and interests are an end in itself of the company's employee relations arrangement. Self-regarding values stimulated by employee power are expressed in the owner-manager's conviction that the development of employees as assets results in positive effects on firm performance via improved employee performance. Value orientations of owner-managers and the significance they assign to employees compared to other stakeholders are indicators of the salience of employees as stakeholders.

Employee-oriented CSR consists of an employee-friendly organisational climate in which meeting employee needs and interests is prominently addressed. An employee-friendly organisational climate is characterised by free use of voice, job-level and organisation-level participation – resulting in transparency – paired with an employee perception of procedural and distributive fairness. This is also the basis for the design of specific HR practices. However, to result in positive employee outcomes, its claimed basis in the owner-manager's other-regarding values must be perceived and recognised as such by employees believing that the organisation is committed to their well-being.

Four types of indicators are employed for establishing whether and to what degree an organisation is characterised by the presence of employee-oriented CSR:

1. Employee perception of the owner-manager's value orientations indicates how employees view the employee relations arrangement in their company.
2. Employee assessment of organisational climate, employment security, and participation provide an indication of the coherence of the various basic aspects of the employee relations arrangement.

3. Employee appreciation of the other HR practices allows for establishing the various employee outcomes of the employment relations arrangement.
4. The level of job satisfaction as the most prominent employee outcome is used as a proxy of the judgment of the employee relations arrangement in its entirety.

Salience of foreign subsidiary employees – measured with the same indicators as in the home country situation – affects whether international transfer of employee-oriented CSR is attempted. It is expected that owner-managers perceive the introduction of employee-oriented CSR in the foreign subsidiary to be more difficult than in the home country situation due to institutional distance and lower proximity. Indicators are owner-managers' perception of institutional distance and the compatibility of the basic aspects of employee-oriented CSR with the host country institutional environment, in particular, its normative and cognitive institutions.

Institutional distance requires the employment of institutional entrepreneurship to effect the required institutional change in the subsidiary's internal organisational environment, on the one hand, and translation of employee-oriented CSR practices to the host country's institutional environment on the other. Indicators in this aspect are the investment of time by the owner-manager in shaping the subsidiary's employee relations arrangement, use of power of meaning, subsidiary employee perception of the owner-managers' value orientations underlying the employee relations arrangement, recognition and appreciation of the various basic elements constituting the employee relations arrangement, and the level of job satisfaction.

Finally, successful introduction and transfer of employee-oriented CSR is expected to align employee and organisational needs and interests to a higher degree than the other three employee relations arrangement types. The positive employee outcomes of employee-oriented CSR instigate greater job satisfaction and commitment to the organisation. This is subsequently expected to result in positive firm outcomes in the form of improved employee performance as evidenced, for example, in indicators such as lower absenteeism and greater employee productivity.

CHAPTER 4

METHODOLOGY AND METHODS

4.1 INTRODUCTION

A multiple case study research has been conducted to explore whether and to what extent the relationships in the conceptual model as described in Chapter 3 are relevant. In this chapter, I discuss the methodology and methods employed in this research. Methodology addresses the epistemological framework with which the research methods are associated. Methods are the tools with which the actual empirical research has been performed (Collis & Hussey, 2009).

Section 4.2 depicts the epistemological framework affecting the methods exploited for data collection, data processing, and the analysis of the data. This research relates to different groups' perceptions of their firms' employee relations arrangements, which makes an interpretivist approach appropriate. These perceptions are outlined and measured by means of both qualitative and quantitative research methods in the setting of a multiple case study. Section 4.3 explains the logic behind applying the case study method in this investigation and provides the relevant practicalities of the overall research process. Furthermore, the validity issues regarding the empirical validity of this research are addressed in this section.

Subsequently, Section 4.4 deals with the qualitative segment of the research encapsulating the conceptual model's constructs and their proposed mutual relationships as well as owner-managers' and employees' perceptions of the employee relations arrangement. The focus in this aspect is regarding interview methods and subjects per category of interviewees. Additionally, the difficulties in conducting international qualitative research and the ways in which these difficulties have been addressed are also discussed. Sections 4.5 and 4.6 examine the quantitative portion of the research in which it is investigated to what extent the interviewed employees' perceptions of their firm's employee relations arrangement is shared by the firm's workforce. Section 4.5 describes the survey schema and execution.

The final section, i.e., Section 4.6, describes how the constructs and sub-constructs from the conceptual framework have been translated into the scales that have been employed to analyse the survey results.

4.2 THE EPISTEMOLOGICAL FRAMEWORK

In business research, including HRM and CSR, we can distinguish between two main paradigms: a positivist paradigm and an interpretivist paradigm (Boselie *et al.*, 2001; Collis & Hussey, 2009; Godfrey & Hatch, 2007; Lee, 2008). HRM research, especially in the field of strategic HRM, often aims at establishing a causal association between HRM strategy and HR systems/practices, on the one hand, and (financial) firm performance on the other. This results in a dominance of positivist-based research intending to provide companies' management with instruments to achieve specific outcomes (Becker & Huselid, 2006; Boselie *et al.*, 2001). Such a schema also implicates an 'outsiders' perspective on HRM. The 'insiders' perspective, i.e., that of employees, is rarely addressed (Grant & Shields, 2002). CSR research can be located on a continuum with an economically inspired attitude toward the firm and an ethically inspired conviction toward the firm as opposite poles (Godfrey & Hatch, 2007). Lee (2008) signals that mainstream CSR has gradually moved toward the economic end of the continuum by placing increasing emphasis on how CSR affects the firm's financial performance. As a result, positivist-based research also became more preminent in CSR.

Ontologically, positivist researchers begin by assuming that reality is objective, i.e., independent of the observer. In contrast, interpretivists believe reality is socially constructed. Consequently, whereas positivists think there is only one reality, interpretivists presume that there are multiple realities (Arbnor & Bjerke, 1997; Collis & Hussey, 2009; Hurmerinta-Peltomäki & Nummela, 2004). Epistemologically, positivists believe that valid, objective knowledge can only be generated from observable, measurable phenomena in which general theories establishing cause-effect relationships of the phenomena to be explained can be developed. Interpretivists, however, are interested not so much in cause-effect relationships as in attempting to grasp the nature of the phenomenon under investigation and its relationships with other phenomena (Arbnor & Bjerke, 1997; Collis & Hussey, 2009; Hurmerinta-Peltomäki & Nummela, 2004).

The ontological and epistemological position of positivists and interpretivists results in each having its own preferred toolbox for research methods. In order to establish cause-effect relations, positivist researchers need to demonstrate that the phenomena supposedly representing cause and effect, first, co-vary; second, variations in one phenomenon precede variations in the other; and, finally, the association between the phenomena is not spurious (Arbnor & Bjerke, 1997). Interpretivist researchers, in contrast, exploit qualitative research methods since qualitative data enable the researcher to gain deeper and more nuanced insight into the ‘how’ and ‘why’ aspects of organisational processes than can be achieved by quantitative research (Brewer & Hunter, 1989; Curran & Blackburn, 2001; Doz, 2011; Graebner *et al.*, 2012). Brewer and Hunter (1989) add that qualitative research is pre-eminently appropriate for exploring areas that are relatively new, complex, and value-laden. Pragmatists, however, maintain that, since both qualitative and quantitative methods each have their particular strengths and weaknesses, both methods should be employed to gain a comprehensive representation of the investigated phenomenon (Hurmerinta-Peltomäki & Nummela, 2004).

The study’s subject and approach differ from ‘traditional’ research in HRM and CSR in that it contends that employee performance is affected by employees’ perceptions of (top) management’s value system. In ‘traditional’ CSR and HRM research, firm performance is generally equated with the firm’s financial performance affecting shareholder wealth while the effect of firm behaviour and actions on other stakeholders such as employees is considered as a means to increase shareholder wealth instead of a component of firm performance. Therefore, inherently, this type of research is conducted from an economically-based management perspective. The three aspects that have a central role in the present research – the employee perspective on the firm’s employee relations arrangement; employees’ appreciation of the arrangement’s employee outcomes; and the role of management’s value system in the design and execution of the firm’s employee relations arrangement – have rarely been collectively researched (see e.g., Grant & Shields, 2002; Guest, 2002; Legge, 1998; Paauwe, 2004; Van Buren, Harry J., III *et al.*, 2011). Consequently, the normative, value-based aspects of the employee relations arrangement play an important part in this study. However, the current research is only partially normative in the meaning Scherer and Palazzo (2007, p. 1097) attach to it – research that “is centred on moral evaluation, judgment and prescription of human action” – as it intends to disclose whether owner-managers’ other-regarding values affect the design of their firms’ employee relations arrangements.

The above information implies that a mixed methods approach would work best for the subject under consideration. Since there is little existing research regarding the employee perspective toward firms' employee relations arrangements and the role of management's value system in the design and implementation of a firm's employee relations arrangement, exploratory research into these aspects is needed. This induces a need to investigate, through qualitative research, how management's value system affects the design, implementation, and processing of their firm's employee relations arrangement. Qualitative research is also required to explore in what ways employees perceive the influence of management's value system on the employee relations arrangement and how this affects their appreciation of the arrangement's employee outcomes and their position toward the firm. However, in the qualitative research component, employee perception of their firms' employee relations arrangement has been measured by the implementation of interviews with a limited number of employees who have been selected by the owner-manager. Thus, quantitative research is needed to establish to what extent the findings from the qualitative component apply to the firm's workforce in its entirety.

Doz (2011, p. 583) defines qualitative research as "qualitative analysis (such as narratives and conceptual development) of qualitative data (such as semi-structured interview data, qualitative case studies, ethnographic studies, and so on)". Van Maanen (1979, p. 520) considers qualitative methods an "umbrella term covering an array of interpretative techniques that can describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world". In contrast to qualitative research, quantitative research enables statistical generalisation of survey aggregation based on samples of entire populations. Apart from the fact that quantitative research is less appropriate for 'how' and 'why' questions, it is also inappropriate when exploring social issues about which respondents do not want or are not able to respond wholeheartedly (Brewer & Hunter, 1989; Yin, 2003). Furthermore, because most quantitative research measures phenomena at a particular moment in time, it is often not feasible to distinguish correlation from causal relationships between variables (Carton & Hofer, 2006).

A mixed approach with both qualitative and quantitative methods enables researchers to exploit the strengths of both methods while avoiding their respective weaknesses (Brewer & Hunter, 1989; Curran & Blackburn, 2001). A combination of various methods allows developing a more comprehensive

understanding of a phenomenon since the researcher then can take into consideration as many different aspects as possible (Flick, 1998; Hurmerinta-Peltomäki & Nummela, 2004). In this study, survey research assists in establishing the degree of generality of how the employees of the case study firms perceive their firms' employee relations arrangement. On the other hand, the qualitative fieldwork in this study enables the researcher to place the survey results in their specific institutional setting, both on an organisational and on a national level. Furthermore, convergent findings between methods increase the validity and reliability of research results while divergent findings signify a need for further research and for caution regarding the interpretation of results (Brewer & Hunter, 1989).

4.3 RESEARCH SETUP

The objective of this research is to establish whether and to what extent the other-regarding component of owner-managers' value systems affects design, implementation, and functioning of their firms' employee relations arrangements in the parent company as well as in foreign subsidiaries, and, more specifically, whether such an arrangement can be typified as employee-oriented CSR. In this research, I explicitly include the possibility that the perception of the extent to which the employee relations arrangement is established on the owner-manager's other-regarding values may diverge between parent company management, parent company workers, subsidiary management, and subsidiary workers. Consequently, the multiple case study approach is the most appropriate approach as case studies facilitate understanding such subjective social phenomena (Brewster *et al.*, 1996; Harney & Dundon, 2006). In this research, seven cases of Dutch multinational SMEs with a subsidiary in Poland or Estonia have been investigated. Each case, except one, consists of two establishments including the parent company and the subsidiary in Poland or Estonia¹.

This multiple case-study research has been performed in two phases. The first phase consisted of qualitative research in which I made use of interviews, internal documents, and on-site observations in an attempt to establish the relationship between employee power and the owner-manager's value system, on the one hand, and

¹ Harvest Co consists of a production establishment in Estonia and a headquarters annex sales office in the Netherlands. The latter, however, consists only of the owner-manager.

the design, implementation, and functioning of the firm's employee relations arrangement on the other. This required identification of the relevant constructs regarding design, implementation, and functioning of employee relations arrangements in multinational SMEs and to gain an understanding of these constructs and their mutual relationships. The second phase consisted of quantitative research in which I attempted to establish to what extent the interviewed employees' perception of their firm's employee relations arrangement was shared by the firm's workforce in general. To accomplish this, I distributed a survey among all employees in both the parent company and the foreign subsidiary of the case study firms. Subsequently, I revisited the qualitative research findings in order to place the survey findings in their proper institutional setting (Brewer & Hunter, 1989; Carton & Hofer, 2006; Spence, 2009).

The significant advantage of case studies over research of single groups or departments is that case studies address firms in their entirety. Associated with this, case studies enable historical analysis of developments within the firm which make it possible to interpret how qualitative changes in specific settings emerged. Compared to survey studies, the researcher can specify relevant constructs more concretely and subsequently gain a deeper understanding of these constructs. This, in turn, enables the researcher to more directly illustrate specific relationships. Since the research issue partly comprises unexplored territory, case studies are more relevant as they are suited par excellence to acquire new knowledge (Eisenhardt & Graebner, 2007; Siggelkow, 2007; Yin, 2003). Furthermore, case studies are quite appropriate to generate managerially relevant knowledge – in this case, for instance, awareness that divergence in the perception of the employee relations arrangement between management and the workforce may result in adverse effects on company performance (Gibbert *et al.*, 2008).

Understanding of the conceptual model's constructs and their mutual relationships is enhanced by the fact that interviews within case study firms enable the researcher to develop greater rapport with the interviewees which is likely to effectuate greater accuracy of information (Daniels & Cannice, 2004). Since this research is cross-national in nature, in-depth interviews within case studies are an excellent tool to approach the complex processes of mutual influence between a parent company and its subsidiary regarding transfer of (parts of) employee relations arrangements and the influence on such a transfer exerted by the home and host country institutional environments (Ferner & Quintanilla, 1998). Transfer of (parts of) employee relations arrangements to foreign subsidiaries involves institu-

tional entrepreneurship: cross-case analysis enables investigation of which processes of implementing divergent change lead to what outcomes (Battilana *et al.*, 2009).

I have employed a predominantly purposive or theoretical sampling strategy to select case study firms as well as interviewees within the case study firms (Brewer & Hunter, 1989; Curran & Blackburn, 2001; Flick, 1998). Due to the existing relationships between the researcher, individually, and the researcher's institute and (organisations of) SMEs in the north-east region of the Netherlands, the decision to select possible case study firms from this region was obvious. As the industry may affect the nature of employee relations arrangements, companies from the manufacturing, services, and resources sectors have been selected. Furthermore, since the influence of the national institutional environment forms an important component of the research, the host country national environment should sharply contrast with the Dutch home country institutional environment (Eisenhardt, 1989). The new Eastern European member states of the EU, therefore, are pre-eminently appropriate. Poland and Estonia have been selected because of the strong economic relationships between the North-Eastern region of the Netherlands and the Baltic region that date back to the period of the Hanseatic League. As the characteristics of these industries and countries diverge widely, such a setup warrants a fruitful opportunity for identifying cross-case patterns which strengthens the possibilities for theoretical generalisation of aggregation (Eisenhardt, 1989).

Therefore, I was required to gain access to SMEs from the North-Eastern Netherlands that had subsidiaries in Poland or Estonia. However, data on which SMEs have subsidiaries in what countries are not readily available in the Netherlands. Eventually, approximately fifty SMEs from the north-east region of the Netherlands with a subsidiary in Poland and/or Estonia were traced with the assistance of the regional Chambers of Commerce and the Dutch embassies in these countries. Subsequently, all of these firms were approached with the request for co-operation. In order to avoid possible misinterpretations, the study was presented not as having employee-oriented CSR as its subject but employee relations arrangements in general (Liedtka, 1992; Spence & Rutherford, 2004).

The SME sector is notorious for the difficulty researchers have in gaining access to firms. First, SME owner-managers are very busy and have only minimal spare time to participate in research. Second, being very practically inclined persons, they are sometimes sceptical about the relevance of academic research, especially if such

research does not result in a readily identifiable reward (Curran & Blackburn, 2001). After a significant amount of time and effort, I succeeded in gaining access to nine firms from the manufacturing, services, and raw materials sectors. However, this selection of case study companies may be biased since, most likely, only those who have responded positively think of themselves as having a ‘decent’ HRM policy. After all, HRM policies and practices are intertwined with the ethical aspects of a firm’s behaviour. Combined with a possible attitude that such research has no immediate benefit for the firm, this may induce firms to decline cooperation (Liedtka, 1992). During the research period, two firms withdrew, one because cooperation was implicitly rescinded following the interview with the owner-manager – presumably due to timidity after having gained additional insight into the research objectives. The other filed for bankruptcy due to the current economic crisis before the research had been completed.

Gaining access to the parent company does not automatically imply access to the foreign subsidiary – the foreign subsidiary manager must agree to your visit as well. The danger in this aspect is that the foreign subsidiary may consider the researcher as a possible spy from headquarters (Marschan-Piekkari *et al.*, 2004). I experienced this in one of the case study firms where the subsidiary manager effectively objected against my visit for this reason. On the other hand, Marschan-Piekkari and colleagues (Marschan-Piekkari *et al.*, 2004) argue that, if the researcher is from the same country as the parent company, the foreign subsidiary manager may even be eager to channel information through the researcher to headquarters. I experienced this as well in another case study company.

The empirical research in the final sample of seven case study companies occurred during the period from September 2010 until March 2012. Table 4.1 presents an overview of the research methods employed in each company. From the final sample of seven case study companies, six allowed interviews with parent company employees, subsidiary management, and subsidiary employees. In one company – for practical reasons – only an interview was conducted with the owner-manager. The interviews were held in the period from September 2010 until August 2011. In total, 33 interviews were conducted in these seven companies with each lasting an average of two hours. All interviews, apart from the interview with Horti Co’s subsidiary manager, were held on site. This provided me with the opportunity to also make observations on the interaction between owner-manager/subsidiary manager and employees. Furthermore, I had informal discussions with most owner-managers preceding and/or during the research process which effectuated positive rapport during the interview.

Packing Co and Rubber Co provided a personnel handbook and other internal documents that I consulted during the research. Such documents, however, were only available for the parent company and not for the subsidiary. The internal document at Metal Co was a PowerPoint presentation on the history of the company. Harvest Co was the only company without an official website. However, most of the websites – Metal Co being the exception – did not contain additional information relevant to this research. The survey was held in the period from July 2011 until March 2012. In the next two sections, qualitative and quantitative research methods will be further elaborated.

The soundness of empirical research in social sciences is generally measured in terms of construct validity, internal validity, external validity, and reliability (Gibbert *et al.*, 2008; Yin, 2003). The concepts formulated in the conceptual model have been transformed into constructs that were subsequently converted into measurable attributes. Construct validity entails that these measurable attributes actually measure the construct in question. This implies that a direct association can be established between empirical observations and the theoretical definition of that construct. Construct validity in this research has been enhanced by employing multiple sources of evidence, triangulation of data collection methods, and by having the interviewees review the report of their interview as well as – with regard to the owner-managers – a draft report concerning their firm (Carton & Hofer, 2006; Eisenhardt & Graebner, 2007; Yin, 2003). Additionally, experts have been consulted on the meaning of constructs for the various groups distinguished in this research (Eisenhardt & Graebner, 2007; Yin, 2003).

Internal validity addresses causality that is evidenced from co-variation between the studied independent and dependent variables and demonstrates that cause precedes effect and reflects upon alternative explanations (Carton & Hofer, 2006). In the current study, internal validity is seemingly problematic to the extent that it is not plausible to demonstrate that cause preceded effect based on the actually conducted quantitative research because of its cross-sectional nature. However, this may be compensated by a logical argumentation which adequately explains the research results. In this case study research, internal validity is enhanced, first, by a clear conceptual model presenting the relationships between variables and outcomes. Second, internal validity has been sought by employing pattern matching logic between cases; I researched whether and to what extent the conceptual model's relationships between variables and outcomes matched those ascertained in the case study firms. Thirdly, theory triangulation was applied by means of the

Table 4.1 Overview research methods per company

method	Harvest Co	Horti Co	Metal Co	Packing Co	Paint Co	Rubber Co	Valve Co
interview owner-manager	X	X	x	X	X	X	X
interview HRM staff			X	X	X	X	
interview parent company employees		X	X	X	X	X	
interview subsidiary manager	X	X	X	X	X	X	
interview subsidiary employees	X			X	X	X	
observation	X	X	X	X	X	X	X
informal talks	X	X	X	X	X	X	X
internal documents			X	X		X	
website		X	X	X	X	X	X
survey parent company employees		X	X	X	X	X	X
survey subsidiary employees	X	X	X	X	X	X	X

use of various theoretical perspectives, i.e., (strategic) HRM combined with the resource-based view, institutionalism, and stakeholder theory (Gibbert *et al.*, 2008).

External validity is not a logical result in case study research since this type of research does not permit statistical generalisation. According to Yin (2003), this can be solved to some degree by employing a replication logic with multiple cases. However, external validity can also be interpreted as theoretical generalisability which entails that the empirical findings are compared with the conceptual model. Theoretical generalisation can be claimed if more than one case confirms the theory embodied in the conceptual model (Gibbert *et al.*, 2008; Yin, 2003). Since the current research involves a multiple case study with seven different case study firms, this is considered a sufficient foundation for theoretical generalisation (Eisenhardt, 1989).

Finally, reliability entails that this study can be replicated by another researcher with the same results (Brewer & Hunter, 1989; Yin, 2003). This has been addressed, first, by instrumentation of a case study protocol in which the research steps have been outlined; second, by an interview guide documenting the course of interviewing for all categories of interviewees; and, third, by storing the summaries of internal documents, the audio files, the transcripts of interviews, and the external documents in a case study data base (Flick, 1998; Yin, 2003). The case study protocol and case study database also positively affect external validity in that these increase the transparency of the research process. This facilitates replication of this research in other contexts (Brewer & Hunter, 1989; Gibbert *et al.*, 2008).

4.4 QUALITATIVE RESEARCH METHODS

Interviews have been the single most important qualitative research method. Interviewees have been selected in consideration to their possible contribution to understanding basis, implementation, functioning, and perception of a firm's employee relations arrangement. To accomplish this, I constructed a semi-structured interview guide to ensure that all relevant issues were addressed by each interviewer involved. To take account of the fact that different groups within the company might have different opinions on the nature and functioning of the firm's employee relations arrangement, interviewees have been divided into five categories. The owner-manager was expected to provide information whereby it could

be discerned whether and to what extent other-regarding values affected design, implementation, and functioning of the firm's employee relations arrangement and about their opinion on employees' perception of and experience with this arrangement both at home and abroad. In the larger case study firms in which internal or external HRM staff was employed to deal with HRM issues and to assist in developing new HRM policies and practices, the HRM officer was interviewed concerning the same issues which were also the subjects for the interviews with subsidiary management. Finally, employees both in the parent company and the subsidiary were interviewed about their perception of basis, implementation, and functioning of the establishment's employee relations arrangement. Table 4.2 presents an overview of the main interview subjects per category of interviewees.

All interviews were held on site and were digitally recorded. The interviews in the Netherlands were conducted by me. With regard to the interviews in Poland and Estonia, I utilised native speakers for several reasons.

Table 4.2a Interview subjects per interviewee category

interviewee category	interview subjects
Owner-manager	<ul style="list-style-type: none"> - Company history - Investment motive foreign subsidiary - Ownership structure - Relevant stakeholder groups - Important management norms and values - Source of competitive advantage - Historical development employee relations arrangement - Current and ideal type of employee relations arrangement both at home and abroad - Aspired organisational climate both at home and abroad - Perceived effects on employee performance/commitment - Perception employees of employee relations arrangement - Perceived institutional distance home and host country - Stance towards trade unions
HRM officer	<ul style="list-style-type: none"> - Historical development employee relations arrangement - Nature of current employee relations arrangement - Implementation and functioning of HR practices - Perceived effect on employee performance/commitment - Perception employees of employee relations arrangement

Table 4.2b Interview subjects per interviewee category

interviewee category	interview subjects
Parent company employees	<ul style="list-style-type: none"> - Education, tenure and work experience - Historical development employee relations arrangement - Implementation and functioning of HR practices - Perceived value system top management - Appreciation organisational climate - Appreciation employee outcomes - Basis and level of commitment to the firm - Stance towards trade unions
Subsidiary management	<ul style="list-style-type: none"> - Subsidiary history - Investment motive parent company - Ownership structure - Relevant stakeholder groups - Important management norms and values - Source of competitive advantage - Historical development employee relations arrangement - Current type of employee relations arrangement - Aspired organisational climate - Perceived effects on employee performance/commitment - Perception employees of employee relations arrangement - Perceived institutional distance home and host country - Stance towards trade unions
Subsidiary employees	<ul style="list-style-type: none"> - Education, tenure and work experience - Historical development employee relations arrangement - Implementation and functioning of HR practices - Perceived value system top management - Appreciation organisational climate - Appreciation employee outcomes - Basis and level of commitment to the firm - Stance towards trade unions

First, I do not speak Polish or Estonian. Second, not all potential interviewees spoke English or German fluently enough to allow a fruitful conversation to be held in these languages. Finally, even if interviewer and interviewee can understand one another in a third language, communication problems may arise resulting from institutional differences between interviewer and interviewee (Harzing *et al.*, 2011). Furthermore, employing the interviewee's native language may very well serve to build an improved rapport and increase authenticity, richness, and

accuracy of the data provided. This latter advantage is not compromised by the unavoidable loss in quality due to translation of the interview transcript (Brewster *et al.*, 1996; Harzing *et al.*, 2011).

The interviews in Poland have been performed by a Polish HRM bachelor student in the presence of the researcher. These interviews have been transcribed by the Polish interviewer and subsequently translated by native Polish university students in the Netherlands. The interview of Horti Co's Estonian subsidiary manager was conducted with the assistance of an Estonian interpreter with a Dutch master degree in the Dutch language. Only the interviews with employees at Harvest Co's Estonian site have been performed in English by the researcher. Conceptual equivalence with regard to the constructs employed during the interviews has been achieved through intensive consultation of and discussion with the Polish interviewer and the Estonian interpreter (Streiner & Norman, 2008).

All interviews were digitally recorded and subsequently transcribed. This afforded me an opportunity to fully concentrate on the conversation with interviewees and to revisit the precise content of the interviews at convenient times during the analysis phase (Spence & Rutherford, 2004). Interviewees were encouraged to expand on issues not addressed by the interview guide when deemed illuminating by the researcher. Following transcription and translation (of the foreign subsidiary interviews), the transcripts, the summaries of relevant company documents, and the links to company websites were imported in the Atlas.ti research software program for subsequent analysis.

Based on the procedures as described by Flick (1998) and Charmaz (2006), the interview data were coded. I first exploited initial coding in order to develop labels and then focussed coding by grouping data under labels that were continuously refined during the coding process. Subsequently, by means of axial coding, labels were combined to form sub-constructs, and these sub-constructs were subsequently put together to form constructs. In this manner, a hierarchical coding tree was designed containing labels, sub-constructs and constructs. The construct Employee Outcomes, for example, consists of the sub-constructs of job satisfaction, employment security, and work-related stress. Job satisfaction comprises the labels pay satisfaction, organisational commitment to employees, involvement, working hours, and workplace conditions. Table 4.3 presents an overview of all sub-construct and constructs identified and analysed in the qualitative research phase.

Following the coding process, I applied both within-case and cross-case analysis (Charmaz, 2006; Yin, 2003). Within-case analysis served to identify and analyse the relevant constructs and mutual relationships in the individual firms' employee relations arrangements and the manner in which owner-manager and interviewed employees perceived their firm's employee relations arrangement. The within-case findings were subsequently compared to one another in the cross-case analysis. Finally, the cross-case aggregation was related to the conceptual model which allowed adjustments for optimisation of this model (Ghauri, 2004).

4.5 QUANTITATIVE RESEARCH METHODS

A limitation of the qualitative component of this multiple case study has been the fact that employee interviewees were selected by the owner-managers and subsidiary managers of the firms concerned. This may result in outcomes that are not representative of the entire workforce's perception of the firm's employee relations arrangement. To counter this limitation, a quantitative survey has been held among all employees of the establishments under investigation (Brewer, 1989).

The questionnaire addresses those constructs and relationships in the conceptual model in which employee perception, experience, and valuation play an important role: perception of the owner-manager's value system and the extent to which this value system underlies the firm's employee relations arrangement; perception, and judgment of the firm's organisational climate; experience with HR practices and instruments; assessment of employee outcomes; and felt commitment to the firm. Since there has been, to my knowledge, no survey encompassing the current research subject in its entirety, I traced previously employed instruments for measuring the constructs in question; from these, I extracted those items that – in some cases, after adaptation – were most appropriate for the needs of this research. These, however, needed to be reformulated, for the most part, to the requirements of this research with the support of the qualitative case study findings.

Furthermore, certain new items were developed, in particular with respect to the perceived owner-manager's value system. Finally, the questionnaire was remitted to a union expert and an HRM expert to validate the questionnaire and to suggest

Table 4.3 Theoretical basis of items per (super-)construct

construct	sub-construct	based on
Perceived value system owner-manager		Findings qualitative research
Organisational climate	Free use of voice	Freeman and Rogers ,1999; Wilkinson, Dundon and Grugulis, 2007; Tsui, Pearce, Porter and Tripoli 1997
	Transparency	Ramsay, Scholarios and Harley, 2000; Wilkinson, Dundon and Grugulis, 2007
	Relational atmosphere	Freeman and Rogers, 1999; Tsui, Pearce, Porter and Tripol, Findings qualitative research, 1997
HR practices	Courses and training	Ramsay, Scholarios and Harley, 2000; Edgar and Geare, 2005
	Workplace conditions	Edgar and Geare, 2005
	Job discretion	Ramsay, Scholarios and Harley, 2000
	Work-life balance	Hoevenagel, 2007
	Pay	Tsui, Pearce, Porter and Tripoli, 1997; Brink, 2004
	Internal labour market	Tsui, Pearce, Porter and Tripoli, 1997; Ramsay, Scholarios and Harley, 2000
Employee outcomes	Job satisfaction	Harley, Sargent and Allen, 2010; Ramsay, Scholarios and Harley, 2000
	Employment security	Delery, 1996; Ramsay, Scholarios and Harley, 2000
	Work-related stress	Ramsay, Scholarios and Harley, 2000
Employee commitment		Harley, Sargent and Allen, 2010; Tsui, Pearce, Porter and Tripoli, 1997; Ramsay, Scholarios and Harley, 2000

additional items to fill possible deficiencies (Streiner & Norman, 2008). Table 4.3 shows an overview of constructs, sub-constructs and the bases in the literature that have been used to formulate the items. All items in the constructs mentioned in Table 4.3 were measured utilising a five-point Likert scale in which judgments could vary between 1 = strongly disagree to 5 = strongly agree.

In addition to these constructs, general questions regarding employees' situations were asked such as gender, tenure, formal education, nature of employment contract, and the company for which they were employed. Furthermore, items concerning union membership, union influence, works councils, and – with regard to the Polish and Estonian questionnaires – items gauging the institutional distance with the Netherlands were included. A cover letter, items, and instructions for filling out the questionnaire have been translated from Dutch into Polish and Estonian by native speakers with a superior command of the Dutch language. Items that might be sensitive to institutional differences have been discussed among researcher and translators. As a result, all respondents could fill out the questionnaire in their mother tongue (Searle *et al.*, 2011).

The questionnaire has been distributed to employees through the management of the case study firms, both in the parent company and the subsidiary. This is a common research procedure due to the difficulty of contacting SME employees in any other manner. Nevertheless, it is not an ideal method since employees are aware that they have been approached with the consent of their management. This may deter them from expressing their true thoughts and feelings, especially regarding subjects they believe may be sensitive to management (Curran & Blackburn, 2001). A conspicuous example is the percentage of missing values regarding the items on union influence. In the Netherlands, the percentage of missing values is approximately 15% while this percentage in Estonia is 35 and, in Poland, even a staggering 60%.

Management ensured that employees received a questionnaire together with the cover letter, a pre-paid return envelope, and a pen. The cover letter was constructed so as to instil trust in respondents by guaranteeing anonymity, to build legitimacy with respondents by explaining the survey's purpose, and to motivate respondents to fill out the questionnaire by signifying the research's importance. Respondents also were informed that they could skip items they did not want to complete. In order to minimise missing values, care was exercised to begin the questionnaire with factual, non-threatening items and to put more sensitive/risky

items at the end of the questionnaire (Curran & Blackburn, 2001; Kriauciunas *et al.*, 2011). A pilot study has been held among a number of persons comparable with the employee population of the companies under investigation to test the relevance of items, their comprehensibility, and their readability (Curran & Blackburn, 2001). This has been done only in the Netherlands since it was not possible to organise one in Poland or Estonia.

A total of 436 questionnaires were distributed of which 224 were returned, an overall response rate of 51.4%. The response rate per company varied between 27% and 100%. After approximately two weeks, each of the establishments was sent a request to reiterate among their employees the significance of completing this questionnaire. This indeed increased the response rate. The exact overview of the response rate per company is depicted in Table A1.1.

Not all questionnaires have been filled out completely. Missing values have been addressed by means of list-wise deletion per construct making N per construct vary between 158 (HR practices) and 194 (employee commitment to firm). For the individual sub-constructs, N varied between 174 (perceived other-regarding values owner-manager) and 210 (organisational transparency). This implies an overall response rate, after deletion, varying between 36.2% and 48.2%, which is a rate well above the 25% level generally deemed acceptable in social sciences (Boxall *et al.*, 2011).

Streiner and Norman (2008) list four possible reasons for neglecting items:

1. by mistake,
2. by believing the item to be objectionable,
3. language is too difficult, or
4. deeming the item not applicable to oneself.

Kriaucinas and colleagues (2011) add to this a reticence to share proprietary information as a reason for not completely filling out the questionnaire. In this survey, sensitivity of a number of items coupled with the awareness that the survey is being conducted with management's consent and a possible disbelief of the anonymity guarantee can be expected to be one of the two main reasons for not completely filling out the questionnaire. The second reason may have been that individual HR practices such as courses and training and work-life balance may not have been felt especially applicable to the individual situation and were neglected accordingly.

4.6 CONSTRUCTS, SUB-CONSTRUCTS AND SCALE CONSTRUCTION

The qualitative research during the first phase has resulted in a division of the conceptual model's constructs in sub-constructs that appeared to meaningfully reflect reality in the perception of the owner-managers and the interviewed employees. However, the perceptions of reality varied between owner-managers and interviewed employees. In the quantitative research during the second phase, I explored whether the interviewed employees' perception of the employee relations arrangement, its basis in the owner-manager's value system, and its outcomes¹ were also upheld by the general workforce of the case study companies. First, I applied a principal components analysis (PCA) to establish whether the constructs and sub-constructs related to the conceptual model were also evident in the survey results. This implied that, by applying PCA, it should be possible to reduce the survey variables to a limited number of scales representing the previously identified constructs (Terwee *et al.*, 2007). Table 4.4 exhibits the results of this exercise.

Table 4.4 Factors and their eigenvalue per super-construct

construct	factor	eigenvalue
perceived other-regarding values owner- manager	1	5.946
organisational climate	1	7.744
	2	1.517
	3	1.046
HR practices	1	6.437
	2	1.655
	3	1.620
	4	1.508
	5	1.309
	6	1.116
employee outcomes	1	4.603
	2	1.656
	3	1.085
employee commitment to firm	1	2.252

¹ See also Table 4.3, Section 4.5

Based on the Kaiser criterion, those components or factors were considered relevant that had an eigenvalue greater than one (Field, 2009). Subsequently, I employed an exploratory factor analysis to determine whether the components could be used as scales indicating the underlying constructs. To accomplish this, the items included in the scale were considered to load sufficiently onto the factors concerned if the loading was 0.4 or greater (Field, 2009). I then utilised Cronbach's alpha to establish reliability of these scales by determining their internal consistency. During this process, certain reverse-worded items were omitted from the scales if, in that way, alpha could be significantly increased. Reverse-worded items generally tend to have a negative effect on Cronbach's alpha (De Heus *et al.*, 1995; Streiner & Norman, 2008).

The range of values that alpha can acquire for considering a scale as internally consistent, however, is subject of considerable debate (Cortina, 1993; De Heus *et al.*, 1995; Streiner & Norman, 2008). It so happens that the value that alpha acquires depends on several factors of which two are relevant to this research. First, the number of items influences alpha, i.e., the higher the number of items, the higher alpha becomes (Cortina, 1993). Second, scales indicating complex constructs tend to exhibit relatively low internal consistency (Schoorman *et al.*, 2007). In this research, alphas greater than 0.60 are considered acceptable (De Heus *et al.*, 1995).

Tables 4.5-4.9 depict the scales indicating the individual constructs and their related sub-constructs, response, number of items, example items, and Cronbach's alpha. The discussion of the constructs and their related sub-constructs is organised around these tables. Table 4.5 illustrates the scale indicating the perceived other-regarding values of the owner-manager. PCA distinguished only one component with an eigenvalue greater than one (see Table 4.4) implying that this construct cannot be meaningfully divided into sub-constructs. Factor loadings of items ranged from 0.744 to 0.853 which is quite high (Field, 2009). This increases the confidence that the scale, indeed, measures perceived owner-manager's other-regarding values. The alpha of 0.935 points to high reliability and internal consistency.

The scales connected with the construct of organisational climate are presented in Table 4.6. Organisational climate consists of three sub-constructs. Through exploratory factor analysis, these three components were identified as scales underlying the sub-constructs of the relational atmosphere between management

Table 4.5 Reliability scale associated with perceived other-regarding values owner-manager

Construct	sub-constructs	N	items	example item	α
perceived other-regarding values		174	9	Employees' well-being is more important to management than increase in profits.	0.935

Table 4.6 Reliability scales associated with organisational climate

construct	sub-constructs	N	items	example item	α
organisational climate		180	16		0.925
	relational atmosphere	97	6	In this company we talk openly and informally with one another.	0.869
	Voice	201	5	Management appreciates it if employees give their view on company affairs.	0.897
	Transparency	210	5	Management regularly organises information meetings for the company as a whole.	0.821

Table 4.7 Reliability scales associated with HR practices

construct	sub-constructs	N	items	example item	α
HR practices		158	21		0.845
	workplace conditions	216	3	The working conditions at my workplace are good.	0.830
	courses and training	187	5	New employees always follow an induction programme.	0.811
	internal labour market	207	3	This company has a transparent procedure of promotions and job changes within the company.	0.662
	Pay	204	4	This company gives fair yearly pay increases.	0.676
	job discretion	208	3	I have a lot of influence on the variety in my work.	0.694
	work-life balance	190	3	I can have flexible working times if I wanted to.	0.677

and workforce, free use of voice, and perceived transparency of management, respectively. Factor loadings ranged from 0.584 to 0.794, which is good (Field, 2009). The reliability of the scale indicating organisational climate is good just as with the reliability of the scales indicating the sub-constructs since all alphas are greater than 0.80 (Cortina, 1993; De Heus *et al.*, 1995; Gliem & Gliem, 2003). As a result, all of these scales can be exploited in the research.

The construct of HR practices consists of six components. The accompanying scales are demonstrated in Table 4.7. Exploratory factor analysis identified these components as the scales underlying the following sub-constructs: workplace conditions, courses and training, internal labour market, pay, job discretion, and work-life balance. Factor loading of items into these sub-constructs range from 0.434 to 0.856, which is good (Field, 2009). Reliability of the scale of HR practices as construct is good. Reliability of the two scales indicating the sub-constructs of work-place conditions and courses and training is good since alpha is greater than 0.80. The reliability of the other scales is acceptable since alpha ranges between 0.60 and 0.70 (De Heus *et al.*, 1995). As a result, all of these scales can be employed in the analysis.

Exploratory factor analysis indicated that employee outcomes comprise three sub-constructs: job satisfaction, employment security, and job stress. Job stress is negatively formulated; in this aspect, the score represents the relative absence of felt job stress. The higher the score in this sub-construct, the lower the absence of felt job stress. Table 4.8 presents the overview of employee outcomes and its related sub-constructs. The factor loadings of items to their respective sub-constructs range between 0.551 and 0.858 which is quite good (Field, 2009). The reliability of the scale indicating employee outcomes as construct is good just as with the scale of the sub-construct of job satisfaction. The scale indicating employment security is just acceptable as it is greater than 0.60. Despite the fact that the scale indicating job stress acquired an alpha of only slightly over 0.50¹, it has been decided to maintain this scale. The low number of items as well as the fact that one of these items has been reverse-worded unduly depresses the value of alpha. Still, the outcomes must be prudently addressed Gliem & Gliem, 2003).

¹ In the statistical calculations, the scores on the verse worded item have been reversed, but it is possible that a negatively phrased item has a slightly different meaning to respondents than a positively phrased item (Streiner & Norman, 2008).

Table 4.8 Reliability scales associated with employee outcomes

construct	sub-constructs	N	items	example item	α
employee outcomes		167	12		0.820
	job satisfaction	188	6	Usually, I look forward to going to work.	0.861
	employment security	179	3	Management is well aware that employees depend on the company for their livelihood.	0.618
	job stress	210	3	I have enough time to get the job done.	0.502

Table 4.9 Reliability scale associated with employee commitment to the firm

construct	sub-constructs	N	items	example item	α
employee commitment		196	3	I am proud to tell family and friends that I work for this company.	0.737

Finally, the construct of employee commitment comprising only one component with an eigenvalue greater than one could not be meaningfully divided into sub-constructs. Table 4.9 depicts the results with regard to employee commitment. Factor loadings range between 0.650 and 0.849 which is quite good (Field, 2009). Reliability of the scale indicating employee commitment to the firm is adequate as it is greater than 0.70 (Cortina, 1993; De Heus *et al.*, 1995). Consequently, this scale can be used in the survey analysis.

4.6.1 Differences in constructs and sub-constructs between countries

Now the question must be answered of whether the sub-construct scales distinguished for the total response can also be applied to the response from the various countries involved in the current research. Substantive differences in scales between countries may be caused by one of three reasons. First, they may point at different interpretations of constructs due to normative and cognitive institutional differences. Second, they may be related to differences between standards of living between the countries involved. Finally, they may be connected with regulatory differences in the area of labour relations. Furthermore, these reasons may be alternative or complementary explanations of possible differences between sub-constructs.

The first step in investigating these possible differences has been to combine the responses from Poland and Estonia since the institutional differences between these two countries are expected to be too minimal to result in substantive effects on the interpretation of the sub-constructs. In the Fourth European Working Conditions Survey, it is argued that the eastern European new EU member states, with regard to working conditions issues, can be considered to form one category (Eurofound, 2007)¹. Next, I have compared the number of components of constructs with an eigenvalue greater than one between the Netherlands, on the one hand, and Poland and Estonia on the other. Table 4.10 illustrates that, whereas the number of constructs in the Polish/Estonian response is equal to that of the total response, the Dutch response differs in that, in perceived other-regarding values and in employee outcomes, additional components are distinguished.

¹ Their argument is based on the guidelines in Esping-Andersen's *The Three Worlds of Welfare Capitalism*, Polity Press, 1990.

Table 4.10 Comparison of the composition of constructs between total response, response from The Netherlands, and response from Poland/Estonia

construct	number components eigenvalue > 1		
	total response	The Netherlands	Poland/Estonia
perceived other-regarding values owner-manager	1	2	1
organisational climate	3	3	3
HR practices	6	6	6
employee outcomes	3	4	3
employee commitment to firm	1	1	1

A subsequent exploratory factor analysis exhibited that the allocation of items to sub-constructs in the Polish/Estonian response is similar to that in the total response. From the allocation of items to sub-constructs in the Dutch response, it could be inferred that the Dutch employees, with regard to perceived other-regarding values of the owner-manager, made a distinction between individually and collectively directed orientation. Items such as ‘the needs and interests of employees are an important basis of the company’s personnel policy’ are interpreted as indicating the owner-manager’s other-regarding values towards the total workforce while an item such as ‘when I have personal problems that affect my work, management will try to help me’ is interpreted as indicating the owner-manager’s other-regarding values towards the individual employee. With regard to employee outcomes, Dutch respondents seem to separate employment security into job security and income security. In that latter sub-construct, the job satisfaction item ‘right now, staying with this company is more a matter of necessity than of preference’ is also included.

Nonetheless, the internal consistency of constructs and sub-constructs of the Dutch and the Polish/Estonian response generally does not fundamentally deviate from the internal consistencies for the total response as is indicated in Table 4.11. Only the scales of the internal labour market and employee commitment demonstrate considerable divergence of more than 10 percentage points – 13.1 and 10.3 percentage points, respectively.

Table 4.11a Internal consistency constructs and sub-constructs compared across total and country response

Construct	sub-construct	items	total		The Netherlands		Poland/Estonia	
			N	α	N	α	N	α
perceived other- regarding values		9	174	0.935	80	0.896	94	0.934
organisational climate		16	180	0.925	80	0.928	100	0.917
	relational atmosphere	6	197	0.869	87	0.857	110	0.871
	voice	5	201	0.897	84	0.873	117	0.906
	transparency	5	210	0.821	84	0.870	126	0.774
HR practices		21	158	0.845	68	0.880	90	0.879
	workplace conditions	3	216	0.830	89	0.883	127	0.800
	courses and training	5	187	0.811	76	0.786	111	0.823
	internal labour market	3	207	0.662	86	0.738	121	0.607
	pay	4	204	0.676	85	0.675	119	0.664
	job discretion	3	208	0.694	87	0.739	121	0.670
	work-life balance	3	190	0.667	74	0.724	116	0.664

Table 4.11b Internal consistency constructs and sub-constructs compared across total and country response

Construct	sub-construct	items	total		The Netherlands		Poland/Estonia	
			N	α	N	α	N	α
employee outcomes		12	167	0.820	78	0.770	89	0.831
	job satisfaction	6	188	0.861	83	0.828	105	0.892
	employment security	3	179	0.618	80	0.593	99	0.635
	job stress	3	202	0.502	87	0.556	123	0.408
employee commitment		4	196	0.737	86	0.811	110	0.708

4.6.2 Differences in outcomes between home and host countries

Now that the applicability of constructs and sub-constructs between the researched countries has been established, they are exploited to investigate whether and to what extent the employee perception of the firm's employee relations arrangement as established in the survey is in accordance with the owner-manager's perception as well as the perception of this arrangement of the interviewed employees. This should also be evident in the various perceptions of the employee population between establishments. First, I investigate the differences between establishments in the Netherlands and Poland/Estonia, respectively, in order to be able to delve deeper into institutional differences. Second, I analyse to what extent employee perception of the influence of the owner-manager's value system regarding design, implementation, and execution of the establishment's employee relations arrangement differs between the home and host country establishment.

Testing these differences requires making use of non-parametric tests as the assumptions behind parametric tests are violated. In both cases, the independent variables – establishments – are categorical while the dependent variables – the scales indicating the constructs – are measured on an interval level and, thus, are continuous. Testing differences between establishments within their respective institutional environments involves two categories with regard to the independent variable. The participants related to the independent variables differ per category. This implies that these differences can be tested by means of the Mann-Whitney test (Field, 2009). With respect to possibly conflicting opinions regarding the owner-manager's value system, the independent variables are dichotomous, i.e., the parent company and the subsidiary. Because the number of respondents for certain establishments is quite low, cross-tables are employed to indicate possible differences (Field, 2009).

4.6.3 Differences in outcomes between functional categories

Apart from differences in employee perception of the employee relations arrangement between firms and between establishments of a single firm, differences may also occur within a firm between different functional categories of employees, more specifically, between blue-collar and white-collar employees. In the Fourth European Working Conditions Survey (Eurofound, 2007), it is stated

that blue-collar workers report significantly lower levels of job satisfaction than white-collar workers. Blue-collar workers, on average, also experience less job autonomy than white-collar workers (Eurofound, 2012). These two factors may affect the blue-collar perception of the employee relations arrangement and the extent to which it is established on the owner-manager's value system. The outcomes of the qualitative research seem to confirm this to some extent. Consequently, in the quantitative research segment, this has been investigated by testing whether differences in perception between blue- and white-collar workers in single firms, as well as overall, are significant. Since this concerns the relationship between a dichotomous categorical variable and a continuous variable, I have made use of the Mann-Whitney test (Field, 2009). With respect to differences in single firms, I have utilised cross-tables.

In the following three chapters, the outcomes of the empirical research are presented. Chapter 6 presents the findings regarding the nature of the employee relations arrangement as perceived by owner-managers as well as employees in the parent companies. Chapter 7 addresses the owner-manager's transfer intent and encompasses subsidiary management and employee perceptions of the resulting employee relations arrangement. In both chapters, the results from the qualitative and quantitative research have been integrated. Chapter 8, finally, contains the analysis of differences between national institutional environments as well as inter-firm and intra-firm differences.

CHAPTER 5

THE RESEARCH SETTING

5.1 INTRODUCTION

This chapter presents the research setting of the multiple case studies in which I investigate to what extent the conceptual model of employee-oriented CSR as developed in Chapter 3 is theoretically supported (Yin, 2003). The research setting consists of the seven case study firms and of the Dutch, Polish, and Estonian national institutional environments wherein these firms operate.

Section 5.2 contains a description of the investigated companies. For each company, it provides the basic data including sector, specific productive activities, size in terms of the number of employees as well as the location, function, and size of subsidiaries. In addition, the overall business strategy and the competitive advantage created by these firms are addressed. It also includes the description of employees' roles in generating competitive advantage as perceived by the firm's owner-managers. Section 5.3 contains a description of the national business and industrial relations systems in the Netherlands in so far as they impact the structure and content of Dutch multinational SMEs' employee relations arrangements.

Section 5.4 comprises a general description of Eastern Europe's transition from a planned to a market economy. It also includes an analysis of the consequences of this transition regarding working conditions, functioning of the labour market, industrial relations, and normative and cognitive institutions related to the work setting. Though specificities differ between the various countries, the general trends in development following transition are comparable. The aspects mentioned in this aspect represent the general institutional background affecting the transfer of employee relations arrangements by Dutch multinational SMEs to their foreign subsidiaries in Eastern Europe.

Sections 5.5 and 5.6 more closely inspect those aspects of the specific national institutional environments of Poland and Estonia, respectively, that are relevant for understanding the transfer issues with regard to employee relations arrangements.

This concerns legislation on labour market and working conditions issues that affect the personnel policies of firms as well as the quality of enforcement of legislation and regulation. Furthermore, it is explored to what extent the cognitive and normative institutional environments are amenable to the introduction of firms' specific employee relations arrangements.

5.2 THE CASE STUDY COMPANIES

5.2.1 Valve Co

Valve Co is a metal working company established in 1956 that produces valves and accompanying measuring instruments for the oil and gas, petrochemical, and nuclear industries. The company is managed by two owner-managers each controlling half of the shares. The company employs 30 people of whom 23 work in the parent company in the Netherlands and seven in their Polish subsidiary. All employees are hired with the prospect of permanent appointment. During incidental peaks in production, the parent company in the Netherlands employs temporary labour.

Valve Co's business strategy is constructed on tailor-made problem-solving regarding all valve issues that a customer might possibly confront as one way for the company to increase its market share. Management perceives competitive advantage to originate from their product quality, innovativeness, reliability and flexibility. Committed personnel with firm-specific KSAs are considered to be the primary facilitator of this competitive advantage. In their market, Valve Co competes with much more significant competitors. Due to the resulting lack of economies of scale, Valve Co can only operate successfully in the niche of relatively small projects that are not profitable to the larger competitors. Over the past five years, Valve Co has been quite successful. Annual growth of sales volume varied between 10% and 40%.

The Polish subsidiary – directed by a local manager – was acquired in 2005 to participate in a new activity, i.e., the production of polyester casings for valves and measuring instruments. Unit labour costs formed the debate for initiating this activity in Poland since the production of polyester casings was deemed too simple and labour intensive and, subsequently, too costly, to be performed profitably in the Netherlands. This suggests that, from a strategic perspective, personnel commitment and firm-specific KSAs to Valve Co management are most relevant

with regard to their home country employees, especially because, up to this point in time, the Polish subsidiary has not positively contributed to total company profit. This is, however, an issue that the subsidiary workforce is painfully aware of which has created an acute sense of dependence on the parent company in the subsidiary, both among the workforce and management. On the other hand, the subsidiary manager is not completely without power as the owner-manager perceives parental company dependence on the subsidiary manager due to his knowledge of the institutional environment.

The combination of positive firm performance and the perception by management that firm performance, to a large extent, is dependent on employee attitude and KSAs make it probable that the employee relations arrangement in the Netherlands is either HRM-based or features an employee-oriented CSR nature. The situation in the subsidiary, however, is the opposite. Its insecure financial situation and the perceived lack of instrumental employee power make a low-wage arrangement or paternalism more likely.

5.2.2 Paint Co

Paint Co is the result of the merger of three independent paint producers whose roots date back to the end of the nineteenth century. The current owner-manager acquired the company in 2006, at which time the company fared rather poorly and significant redundancies were imminent. In a short period of time, however, the new owner-manager succeeded in ameliorating the negative trend in firm performance. Consequently, the acquisition of Paint Co by the current owner-manager can be considered a critical incident in the company's recent history. The company currently employs approximately 55 people of whom 44 work in the parent company and eight in its Polish subsidiary. All employees in Poland – apart from the subsidiary manager – and most in the Netherlands were hired on the basis of the prospect of a permanent appointment. In the Netherlands, additional use is made of seasonal labour in the production department.

Paint Co produces paints and coatings for the construction industry as well as marine coatings. Furthermore, it produces paints under a private label for retail chains in the do-it-yourself sector. Products are sold predominantly in the Dutch and Eastern European markets. In order to supply these Eastern European markets,

Paint Co has subsidiaries in Poland (since 1998) and Romania (since 2005). Competitive advantage is considered to be constructed on quality, reliability, and innovativeness. KSAs of employees perceived as relevant to achieve competitive advantage include the sales staff's capacity to identify market demand for innovated products; the R & D capacity to translate market demand into products; and the capacity of production employees to contribute to efficient production. Paint Co pursues an expansionary business strategy in which it apparently succeeds rather effectively as its sales volume has increased by more than 10% annually since 2006 despite the stagnating total market demand and economic crisis.

Despite the fact that the relocation of production to Poland would be advantageous from the cost perspective, Paint Co's owner-manager expressly resists this for two reasons. First, the world's two largest paint producers are both Dutch, and coatings from the Netherlands have an honourable international reputation. Relocation of production to Poland would void this reputational competitive advantage. Second, currently, labour cost in Poland may be low, however, wages are increasing rapidly and, consequently, competitive advantage based on low labour cost will erode rather quickly over time.

The Polish subsidiary is a sales office predominantly supplying the Polish market. It has been established by the previous owner and is operated by a local manager. Competitive advantage is also considered in this context to be dependent on employees' KSAs. Communication, however, between parent and subsidiary is perceived to be problematic from both sides. Additionally, sales manpower is insufficient to satisfactorily address the Polish market. Both management and the workforce believe that the parent company is negligent of their interests as Dutch management denies the necessary financial resources to the subsidiary to fully exploit the market potential in Poland. Currently, the subsidiary breaks even, though the owner-manager expects it to positively contribute to total company profit in the mid-term.

The description above suggests that firm performance and market situation are amenable to employee relations arrangements such as HRM-based arrangements or employee-oriented CSR in both the parent company and its subsidiary. This is also apparent from the owner-manager's argument for not relocating production to a low-wage country: his perception, i.e., that price and, thus, cost, is not of overriding significance in the coatings market, makes a low-wage arrangement improbable.

5.2.3 Horti Co

Horti Co dates from 1970 and is a family business owned entirely by its current owner-manager. They employ 35 people in total: 15 at two locations in the Netherlands and 20 in an Estonian establishment in which Horti Co commands a majority share of 75%. Horti Co harvests peat moss in Estonia which is processed into substrate for the horticultural industry in its Dutch production facility. The substrate products are supplied to professional market gardeners all over the world. The owner-manager perceives relocation of substrate production to Estonia as being very risky due to the high investment involved. Employee attitudes are also of a concern as the firm depends on employees when guaranteeing high quality.

Competitive advantage is constructed on the nature of the product since peat moss substrate is the only weed-free type of substrate. However, this characteristic is dependent on there being no weeds in the raw peat moss itself. To ensure this, it is important to have complete control over the harvesting process to guarantee a smooth growth process for horticultural customers. Though total market demand is relatively stable, over 2009, it decreased by approximately 10% due to the economic crisis. During that year, Horti Co also lost a large customer to a competitor. This suggests that competition in this market is fierce. The Estonian subsidiary is managed autonomously by the local shareholding director, though in compliance with broad parent company guidelines. The subsidiary positively contributes to company profit.

Despite the fact that employees in the Netherlands, as well as in Estonia, have a relatively low level of education, the mostly tacit employee knowledge and the specific experience accumulated through many years are significant in realising competitive advantage. According to the owner-manager, this creates difficulty when replacing employees. Consequently, all employees are hired with the prospect of a permanent appointment. Temporary labour is only exploited to a limited extent during the harvesting season.

As Horti Co's market is characterised by fierce competition on price while product quality is a *sine qua non* for the customers, this creates a likelihood of a low-wage arrangement. However, product quality can only be accomplished by employees who have systematically accumulated the required experience and skills over the years. This makes it imperative for the employer to retain employees. This latter aspect makes a paternalist or HRM-based arrangement to be more

likely than a low-wage arrangement. This appears to apply to the parent company as well as the subsidiary.

5.2.4 Packing Co

Packing Co is a family business established in 1922 by the current owner-manager's great-grandfather. There are four shareholder family members of whom only one is actively involved in managing the company and who owns the most significant number of shares. The company began as a trading company for gunny sacks used as packaging materials. Over time, the assortment has been expanded with packaging materials created from other raw materials including plastic and paper. Packing Co focuses on packaging potatoes, fruits, and vegetables. Retail chains in the food sector are Packing Co's primary customers. The company presently has 160 employees distributed over 20 establishments in 12 countries all over the world. In the parent company site, 45 people are employed while eight people work in its Polish subsidiary. All employees in the Netherlands, as well as Poland, are hired with the prospect of a permanent appointment.

The market for packaging materials is extremely competitive and dynamic due to the demanding consumer and retail standards in this area. Therefore, the company has established a product development department to develop new types of packaging materials. Since such a policy, overall, places increased demands on employee KSAs, this was coupled with an upgrading of the educational level of the workforce. This strategy provides Packing Co with a competitive advantage compared to competing trading companies while the opportunity offered to retailers of one-stop shopping for the entire range of packaging materials affords them an advantage relative to producers of packaging materials who supply only a segment of that range. Intense competition regarding quality and innovativeness increases the relevance of employee knowledge and educational level. The owner-manager perceives the KSAs of all employee categories across the company to contribute to the efficiency and effectiveness of the company's business processes.

The sales office in Poland was acquired in 2004 and, since then, sales volume has experienced strong growth. Since Poland is a significant agricultural producer, the subsidiary is expected to quintuple its sales in the long run. Currently, the

Polish subsidiary positively contributes to company profit. The subsidiary is run relatively autonomously; the subsidiary manager can decide for himself how to achieve the objectives dictated by the parent company while preserving the company's general standards. The subsidiary is dependent upon the parent company product knowledge and on resources to finance larger investments. The owner-manager perceives to be dependent on the subsidiary manager due to his local market knowledge and his knowledge of the institutional environment.

Packing Co targets customers who consider quality and innovativeness more important than price. Thus, employees' knowledge, skills, abilities, and attitudes – both at home and abroad – are perceived to be of utmost importance by the owner-manager. This creates the probability that the employee relations arrangement takes the form of either employee-oriented CSR or an HRM-based arrangement depending on the value system of the owner-manager.

5.2.5 Rubber Co

Rubber Co was established in 1937 as a producer of rubber applications for various manufacturing sectors such as the steel, paper, and oil and gas industries. In total, the company employs 143 people of whom 100 are in the Netherlands and 43 are in the Polish subsidiary. Both in Poland and the Netherlands, employees are hired with the prospect of a permanent appointment while there is a limited shell of temporary workers.

Rubber Co has three owner-managers, two of whom each own 47.5% of shares and one 5%. Rubber Co was purchased in 1996 in a management buy-out by the current management team. In 1996, Rubber Co also took a minority interest in a Polish company which, in 2003, was expanded to a majority interest of 51% of share capital. The Polish subsidiary positively contributes to company profit.

Products can be categorised as 'traditional' products that face a stagnating market demand and downward pressure on prices as well as innovative products characterised by strong growth and a healthy price level. The overall business strategy is based on offering tailor-made, innovative products. Traditional product lines contributing insufficiently to company profit are either sold to external companies or transferred to the Polish subsidiary because of its lower labour costs. Another

measure in the framework of increasing cost efficiency was the introduction of a three-shift system in the parent company location for most production employees in 2007. For the production employees, the new obligation to work in a three-shift system was a critical decision that caused significant unrest that has still not been subdued.

Competition in the market is fierce, making continuous product innovation and development essential for survival. Rubber Co perceives itself as successful as it outpaces market growth due to superior product quality and flexibility. The Polish subsidiary's function is to supply intermediate parts with low added value to the parent company. Shareholding subsidiary management can freely decide how to meet the company objectives which are determined during joint meetings. Subsidiary management must comply with health and safety standards dictated under ISO 9000 and ISO 14000 certification. The economic crisis, however, has resulted in a cessation of growth and led to redundancies in the Polish subsidiary and a reduction of temporary labour in the Netherlands.

Firm-specific capabilities of all employee categories in the Netherlands are believed to play an important role in competitive advantage with regard to identifying market signals, translating these into products, and the smooth production of these new products. Firm-specificity also consists of the efficient and effective mutual modifications of the activities of the various departments. This makes it probable that employee relations are moulded as HRM-based arrangements or as employee-oriented CSR. In Poland, employees' low cost is considered as the most significant source of competitive advantage. This will, most likely, create the existence of either a low-wage arrangement or a paternalist arrangement.

5.2.6 Harvest Co

As with Horti Co, Harvest Co operates as a supplier to the professional horticultural sector. The difference is that Harvest Co solely harvests peat moss – in Estonia – while Horti Co both harvests peat moss and processes this into substrate. Harvest Co was founded by the current owner-manager in 1993. In 1997, he acquired a peat company in Estonia. Currently, all production activities occur in Estonia while the owner-manager deals with sales in the Netherlands. Consequently, all 18 employees work in the Estonian establishment. The owner-manager spends the summer – the harvesting season for peat moss – primarily in the Estonian establishment.

Harvest Co's business strategy aims at supplying high-priced, high-quality peat moss to large-scale importers. Professional market gardeners are willing to pay elevated prices because it ensures weed-free production of plants and vegetables. High-quality is a result of the peat moss being harvested in specific ways and is weed-free. The market is relatively small and stable, though the economic crisis is apparent. Despite high prices, profitability does not exceed the average industry profitability due to the relative inland location of the peat terrains which subsequently increases transport costs.

Competitive advantage primarily depends on employee capabilities in procuring and harvesting weed-free peat moss. These capabilities are not acquired through formal vocational education but, instead, through experience that employees accrue over time. This creates difficulty when attempting to replace the production employees in the short term. Therefore, employees are hired with the prospect of a permanent appointment while, during the harvesting season, limited use is made of temporary labour. Since the owner-manager perceives employees' KSAs and attitude as critical to firm performance, the employee relations arrangement is likely cast as paternalism, employee-oriented CSR, or an HRM-based arrangement.

5.2.7 Metal Co

The current owner-manager established Metal Co in 2001 with a sales office in the Netherlands and a production department in Poland. The owner-manager commands 67% of shares while the remaining shares are owned by a private Dutch investor. Currently, the company employs 98 people: 3 in the Netherlands and 95 in Poland. In principle, employees in the Netherlands and in Poland are hired with the prospect of a permanent appointment. Additionally, there is a shell of temporary workers in the Polish subsidiary.

The product range consists of standard and custom-made metal products for various industries such as retail companies, water companies, oil companies, and public utilities. Growth has been impetuous: between 2006 and 2010, sales have more than tripled. Presently, however, the company suffers from the effects of the economic crisis which has halted growth and placed pressure on prices. The current business strategy aims at reduction of dependence on standard products with the expectation that, in this sector, the current competitive advantage of low unit labour costs will

not be longlasting given the rapid increase in Polish wage levels over the past few years. Consequently, Metal Co has shifted emphasis to higher-value-added innovative, customer-specific products. Competitive advantage is sought in product quality, problem-solving capacities, and flexibility.

The business strategy implies that employees' KSAs and attitudes in both the Netherlands and in Poland are significant sources of competitive advantage. Consequently, the owner-manager views employees' firm-specific capabilities as essential in sustaining competitive advantage. This is provided for with both off- and on-the-job training. Furthermore, employee knowledge is expanded through experience. The Polish subsidiary is essential for company profit. Nonetheless, the subsidiary, to a large extent, is dependent upon the parent company market knowledge as the majority of products are sold in the Netherlands and other Western European countries.

In both the home and host country, employee power based on knowledge, skills, abilities, and attitudes is perceived by management as crucial to firm performance. Accordingly, it is to be expected that employee relations are designed in such a way as to stimulate employees to employ their KSAs on behalf of the firm. Thus, it is probable that the employee relations arrangement is HRM-based or takes the form of employee-oriented CSR.

5.3 INDUSTRIAL RELATIONS IN THE NETHERLANDS

The Netherlands can be characterised as a coordinated market economy (Hall & Gingerich, 2009a). The industrial relations component of the Dutch national business system can be typified as neo-corporatism (Crouch, 1993; Tros *et al.*, 2004). A specific characteristic of Dutch neo-corporatism is the relatively harmonious cooperation between organised labour and capital which is supported by the minimal physical and social distances. Neo-corporatism as practised in the Netherlands, however, expands beyond the field of industrial relations into the realms of labour market regulation and social security with the state and nationally or sectorally organised labour and capital as actors (Visser & Hemerijck, 1997). The general acceptance of this situation is evidenced in the relatively high opinion for unions among the general population and a significant majority of the Dutch workforce considers unions to be indispensable to advance their interests. Employers also appreciate the professionalism and reliability of unions in negotiations (Visser & Hemerijck, 1997).

Cooperation between organised labour and capital is advanced by the circumstance that negotiations encompass a broad range of subjects. Both Tros and colleagues (2004) and Visser and Hemerijck (1997) contend that orientation towards common interests, next to issues associated with the distribution of company income between labour and capital, enable 'integrative' negotiations potentially resulting in a positive-sum result, which is satisfactory for both parties (see also Crouch, 1993). This process is reinforced by parties' realisation that they are burdened with each other since, in the near future, they again must conduct business with one another. This advances mutual trust and understanding and the development of a consensual and problem-solving management approach in firms (Visser & Hemerijck, 1997). Crouch (1993) refers to this as 'bargained corporatism'. This bargaining relationship between labour and capital stands in sharp contrast to the self-interested and short-term bargaining relationship in pluralist systems. Where neo-corporatism emphasises the use of voice to settle disagreements, pluralism favours the use of exit (Visser & Hemerijck, 1997).

A second conspicuous characteristic is the cohesive cooperation between government and social partners. Traditionally, Dutch governments consult trade unions and employer associations when constructing new socio-economic policies. This occurs, for example, through the consultation of the Social Economic Council (Sociaal-Economische Raad, SER). The Council consists of independent expert members appointed by the government and with an equal number of representatives as trade unions and employer associations (Tros *et al.*, 2004; Visser & Hemerijck, 1997).

The power of Dutch trade unions is remarkably strong despite low union density and the presence of very strong employer associations. This power becomes evident in the coverage of collective bargaining agreements: approximately 85% of the Dutch workforce is encapsulated by the terminology of collective bargaining agreements. The broad coverage is also due to the fact that collective bargaining agreements are normally legally binding for non-signatory parties as well (Tros *et al.*, 2004). Crouch (1993) contends that the combination of strong union power with low union density positively contributes to the strength and sustainability of the neo-corporatist system. Notwithstanding, the level of employment protection legislation is slightly less in the Netherlands than in both Poland and Estonia (ILO, 2012).

As indicated previously, attaining consensus occupies a central role in the Dutch industrial relations system. At the level of the individual firm, this is embod-

ied, amongst other things, in legal regulations concerning the provision of information, consultation, and codetermination. Establishments with 50 employees or more are legally required to establish a works council. Smaller companies are obligated to establish a representative body if requested to do so by the majority of employees (Ministerie van Sociale Zaken en Werkgelegenheid, 2011; Tros *et al.*, 2004). In any case, they must convene at least twice per year in a meeting with their entire personnel (Visee & Mevissen, 2009). Compliance with the law regarding works councils amounted to approximately 70% in 2008. This compliance is positively related to firm size (Visee & Mevissen, 2009). Both management and employees indicate, as reasons for non-compliance, the presence of other satisfactory forms of consultation and/or the lack of potential candidates for a works council (Tros *et al.*, 2004).

In the Netherlands, works councils have extensive consultation and codetermination rights comparable to those of works councils in Germany which, in the literature, are generally determined as a benchmark for far-reaching worker influence within organisations (Van den Berg *et al.*, 2011). In addition, a significant majority of Dutch companies have – apart from indirect participation through works councils – various forms of direct participation (Visee & Mevissen, 2009). This implies that employee consultation, generalised trust, and a consensual decision-making style are deeply rooted in the Dutch institutional environment not only in the regulative pillar but, even more importantly, in the cognitive and normative pillars (Visser & Hemerijck, 1997).

5.4 EASTERNEUROPE

5.4.1 The transition from plan to market

In order to gain a deeper understanding of relevant characteristics of the current host country institutional environments, it is necessary to first present a broader representation of these countries' vicissitudes during their transition from planned economies to market economies culminating in their accession to the EU in 2004. This is necessary as especially normative and cognitive institutions generated in the Communist era preserved their influence in the post-socialist period; their significance is only gradually declining (Gelbuda *et al.*, 2008).

Revolutions in the various Central and Eastern European (CEE) countries during the years 1989-1991 induced a sudden collapse of the existing formal institutions while the establishment of new formal institutions took time to achieve fruition. Consequently, the first phase of the transition period was marked by incomplete legal and regulatory frameworks. This phase, however, lasted only a relatively short time since the new regimes rapidly and energetically initiated the formation of new formal institutions (Gelbuda *et al.*, 2008).

Economically, during the first phase of the transition period, all CEE economies experienced a sharp decline in real GDP, though there were significant differences between individual countries. In Latvia, national output declined by a staggering 50% between 1990 and 1993; in Estonia, GDP dropped 35% during that period; while Poland experienced a relatively mild decline of 'only' 18%. This was reflected in a sharp decline of employment and, due to the changing structure of the CEE economies, in an increasingly inappropriate match between demand for and supply of labour. After 1993, growth increased and, by the second half of the 1990s, most countries experienced GDP levels restored to the 1990-levels. After a decrease due to the Russian crisis of 1997/8, economic growth recovered and was further stimulated by the accession to the EU (Gebel, 2008).

All countries liberalised prices as a component of the transition process. However, this led to elevated inflation rates causing real wages to considerably decrease. By 1996, the absolute bottom occurred with real wages having plummeted between 17% and 70% compared to 1990 levels. After 1996, however, real wages were on the rise once again (Vaughan-Whitehead, 2003). During the years 2000-2007, real wages, on average, increased by over 5% annually. This increase, due to the effects of the economic crisis, dropped sharply to -0.1% in 2009 (ILO, 2010).

The introduction of the market economy in CEE countries was accompanied by reforms in labour legislation and labour market institutions. The new institutions, however, were rather inadequate in the beginning. Additionally, enforcement of and compliance with the new laws were minimal, making possible phenomena such as delayed payment of wages and forms of informal work (ILO, 2005; Vaughan-Whitehead, 2003). The occurrence of informal work actually increased during the entire transition period (Gebel, 2008). Combined with the reduction in employment protection, this led to massive unemployment (ILO, 2005).

In addition to low wages, employees in CEE economies also faced comparatively inadequate working conditions, especially with regard to working hours and health and safety issues. Employees working extended hours and not being compensated for overtime were relatively common phenomena. With regard to health and safety, the enforcement of the existing regulation was also rather inadequate (Vaughan-Whitehead, 2003). Workers responded to the deterioration of their situation through exit. Women and elderly male workers exited through the benefit system while others sought refuge in the informal economy or migrated to Western Europe, especially following the EU accession in 2004. In Poland and the Baltic States, migration amounted to as much as between 5% and 10% of the working population. One effect of this massive exit, however, was that it forced employers to improve working conditions, especially wages (Meardi, 2007; Woolfson, 2007).

In the field of industrial relations, certain common characteristics – though in differentiated forms – can be distinguished for the CEE countries. First, a drastic decrease in union power has occurred. During the socialist period, union membership was, more or less, mandatory and, therefore, union density was extremely elevated. Not surprisingly, union density decreased dramatically during the transition (Kohl & Platzer, 2003). For instance, in 2000, union density in Poland was a mere 15%. Furthermore, union membership is concentrated in the public sector and in the large privatised former state enterprises (Gebel, 2008).

Second, the number of employees covered by collective bargaining agreements is generally very low. Union influence is negatively affected by the high levels of unemployment and, in some countries, by fragmentation of and extensive strife between unions. Low union density and power are reflected in the low presence of employer associations, implying that there are only few negotiation partners for unions to conclude collective bargaining agreements on a national or sectorial level (Kohl & Platzer, 2003; Martin, 2006). Collective bargaining agreements at the firm level and individual contracts are predominant (Gebel, 2008). Third, the concept that employees form assets whose development can increase added value and productivity and, thus, firms' competitiveness has only minimally gained a secure position among firm owners and managers in Eastern Europe (Kohl & Platzer, 2003). This is reflected in the low levels of employee participation even in multinational companies from countries in which employee participation is considered more or less normal (Vaughan-Whitehead, 2003). In SMEs, employment relations are generally arranged on an informal basis (Martin, 2006). In this aspect, collective bargaining agreements are virtually non-existent (Illessy *et al.*, 2007).

Multinational companies investing in CEE countries increased numerical flexibility of labour through new practices such as the introduction of fixed-term labour contracts (Martin, 2006). They also demonstrated a preference for introducing low-wage systems in their subsidiaries in order to profit from skilled, low-cost labour. Furthermore, this also induced an unwillingness to invest in employee training partially out of fear that newly trained employees will be poached by competing firms (Katz & Darbshire, 2000; Nölke & Vliegenthart, 2009).

With regard to the characterisation of the CEE national business systems, the general argument in the literature is that they cannot be classified as coordinated market economies nor as liberal market economies but, rather, form a category in their own right, though as yet not completely crystallised (see e.g., Kohl & Platzer, 2003; Nölke & Vliegenthart, 2009). Kohl and Platzer (2003) notice that, while the system of wage negotiations is broadly similar to that in liberal market economies, union power is much less. Conversely, state interference is much more common in CEE countries. Second, in spite of democracy and economy having been modelled from West European examples, there has been no large-scale adoption of the West European labour market institutions' characteristic of coordinated market economies. Consequently, CEE economies can be identified with regard to employment relations as a separate model.

Kohl and Platzer (2003), however, observe that accession to the EU and the accompanying adoption of EU labour market regulation decrease differences between Western and Eastern Europe. This pertains, in particular, for labour issues that are the subject of EU directives (Leiber, 2007; Toshkov, 2007). The primary areas addressed in these directives comprise health and safety issues, workplace conditions, as well as gender equality and non-discrimination (Toshkov, 2007; Vaughan-Whitehead, 2003). Nonetheless, in other areas such as the employment of temporary labour, differences between Western and Eastern European countries continue to remain relatively significant, especially in less-regulated countries such as Poland and Hungary (Gebel, 2008; Toshkov, 2007). Furthermore, the overall level of employment protection may be considered to be lower in Eastern Europe since compliance with arrangements dictated in laws and regulations may be relatively low because of a low level of actual inspection and enforcement. Violations of labour regulation are quite common, particularly in SMEs. In a Polish 1998 survey, over 70% of management respondents admitted to breaking the law in one or more respects, for example, by not paying overtime, paying late, and maintaining illegal working conditions (Lewicka-Strzalecka & Kozminski, 2006). Additionally, laws and regulations do not always apply to the entire workforce but protect only a small

proportion. On the whole, legal protection of temporary workers, self-employed persons, and employees with a fixed-term contract is far less than that of employees with a permanent contract (Baranowska *et al.*, 2011; Gebel, 2008).

Not of least importance is that the transition also stimulated the dismantling of companies' extensive social provisions and programmes for employees such as provision of housing, health care, and schools that were characteristic of the socialist period (ILO, 2005). These benefits originated from state paternalism in the socialist period which perceived that the state was better able to protect employees' interests than the individual employees themselves. State paternalism guaranteed protection from the cradle to the grave which denied individuals a possibility to take individual responsibility for their lives (Iankova, 2008).

5.4.2 Institutional distance and practice transfer

Due to institutional differences, multinational companies, to a greater or lesser degree, experience liability of foreignness in their host countries resulting in additional costs of conducting business that are not incurred by the host country's domestic firms. These costs can be specified, first, as costs related to coordination of activities across national frontiers; second, as costs originating from the company's unfamiliarity with the host country institutional environment; and, finally, the costs associated with possible economic chauvinism. Liability of foreignness is particularly likely for simple market-seeking MNEs who essentially attempt to replicate the home country situation abroad (Zaheer, 1995).

CEE countries are generally characterised by a low level of institutional trust inherited from the pre-transition period (Svendsen, 2005). For Dutch multinational SMEs with subsidiaries in Eastern Europe, this aggravates liability of foreignness. These SMEs indicate that they experience a substantial institutional distance between the CEE countries and the Netherlands. In this respect, they bring a number of issues to the forefront which, in their perception, is related to the socialist past. First, the quality of the relationship between the public and private sector is perceived to be poor. Often mentioned aspects are the extensive degree of red tape and the lack of a problem-solving attitude among both employees and government institutions. Political instability is also a point of concern. Second, local partners exhibit diminished reliability and accuracy; working procedures differ considerably from those commonly employed in Dutch enterprises. Third, the quality

of the work attitude and work norms of employees is inadequate (Brummelkamp & Hessels, 2005). One aspect affecting the latter two items is the traditionally hierarchical mentality of local management that discourages taking risk, initiative, and responsibility (Meyer & Peng, 2005).

The considerable contrast between the CEE post-socialist institutional environments and the neo-corporatist institutional environment of the Netherlands seriously complicates transfer of employee-oriented CSR practices. Employees' and management's attitudes and values may require significant adaptation to local practices that may even undermine the original intention of the practices involved (Alas & Rees, 2006; Michailova *et al.*, 2009; Soulsby & Clark, 2007). This especially pertains to the transfer of practices aimed at self-actualisation, such as that embodied in employee-oriented CSR, to establishments where management and employees are imprinted with authoritarianism, which is quite common in Eastern Europe (Alas & Rees, 2006).

Organisational trust, in this aspect, is an important issue as it affects employee organisational commitment which subsequently affects employee productivity (Lämsä & Pucetaite, 2006). This implies that, in low-trust institutional environments such as the CEE countries (Svendsen, 2005), organisational commitment may also be low. Consequently, companies can considerably enhance their competitiveness by increasing their employees' organisational commitment. This, however, requires building employee trust as a precondition to organisational commitment.

In this respect, Lämsä and Pucetaite (2006) make a beneficial distinction between cognition-based and affect-based trust. Cognition-based trust is built on greater or lesser knowledge about the other actor's behaviour, therefore, on the probability of reciprocation by the other party. Affect-based trust is built on a mutual expectation of fair treatment by the other party; employees expect management to take due account of their needs and interests, and management expects employees to act responsibly with regard to the firm's interests. Employee-oriented CSR is built on affect-based trust made possible by the high-trust environment of the Netherlands (Svendsen, 2005). One problem in the transfer of employee-oriented CSR may be the interpretation by employees in low-trust countries that such a policy is naïve which may incite them to take advantage of the policy. In such a situation, it is advisable to first instil cognition-based trust (Lämsä & Pucetaite, 2006).

5.5 POLAND

Labour legislation and regulation including health and safety regulation in Poland is comparable to the EU level (Lungwitz *et al.*, 2008). Poland has performed well in transposing EU social policy directives into national law (Leiber, 2007). For example, Polish workers are protected against working extended hours, and workers with permanent contracts enjoy employment protection. The maximum working week amounts to 40 hours to which exceptions are possible only in specified cases (Listwan *et al.*, 2009). However, the inadequacies of inspection agencies that are responsible for the enforcement of the legal regulations allow companies to disregard these legal provisions. As a result, many companies infringe upon working time regulations to maintain their low-cost competitive advantage. Between 20% and 30% of employees state they are regularly forced to work overtime without being paid correspondingly. One in every ten workers do not receive their wages on time.

In addition, many employers divide wages in ‘official’ and ‘unofficial’ components to avoid paying the complete share of payroll taxes and social security contributions. Generally, employees accept this practice as it results in higher net pay despite the fact that this practice reduces rights to pensions and sickness benefits (Lewicka-Strzalecka & Kozminski, 2006; Lungwitz *et al.*, 2008). It is no wonder that Polish managers consider compliance with the law as being the most significant expression of CSR implying that they consider this to go beyond what is regularly expected of companies. Indeed, Lewicka-Strzalecka and Kozminski (2006) ascertain that 72% of managers in Poland admit having trespassed legal regulations to varying degrees.

The general level of employment protection is comparable to the EU average. However, employment protection raises the costs of hiring and firing staff and, therefore, provides employers with an incentive for exploiting fixed-term instead of permanent contracts. Combined with the much more stringent conditions in the Polish Labour Code with regard to collective dismissals – compared to the EU average – this made fixed-term contracts an attractive alternative to permanent contracts. In the event of collective dismissals, employers are expected to reach agreement with trade unions on procedures and severance pay conditions. Furthermore severance payments in the amount of three months’ wages must be made. Conditions for terminating fixed-term contracts are far less strict, especially after a relaxation in 2003. This has induced popularity for fixed-term contracts among compa-

nies. Where, in 2000, the proportion of fixed-term contracts was below 10%, it had increased to over 30% ten years later (Baranowska *et al.*, 2011; Kuzzkowski, 2008). Furthermore, employers have the opportunity to exploit civil law work contracts for 'irregular' work for 'self-employed' persons. These contracts afford employees with only a few rights compared to regular employment contracts regulated under the labour code (Kuzzkowski, 2008; Lungwitz *et al.*, 2008). Consequently, civil law work contracts enable firms in markets characterised by fierce price competition to hire labour at lower costs and subsequently strengthen their competitive position (Lungwitz *et al.*, 2008).

Jürgens and Krzydzwinski (2009) contend that trade unions have only minimal power in the event of collective dismissals since they have only minor influence in the dismissal procedure and that, therefore, cost to employers for dismissal is relatively low. Furthermore, in SMEs, there is relatively little presence of trade unions. In that case, employers must negotiate with an employee representative elected by the company's workforce (Kuzzkowski, 2008). Trade union presence in foreign-owned companies is almost equally low (Listwan *et al.*, 2009). This implies that the bargaining power of employees is almost negligible in SMEs and foreign-owned companies.

Wage bargaining predominantly occurs at the individual company level. There is some wage bargaining at the sectoral level, but none at the national level. Approximately 35% of Polish employees are covered by collective bargaining agreements (Baranowska, 2008). Consequently, the major portion of the workforce must bargain individually for their wages and other terms of employment (Lungwitz *et al.*, 2008).

With regard to employee participation, works councils have been introduced relatively late in Poland due to union resistance out of fear of loss of influence in companies where they experienced an influential position (Lungwitz *et al.*, 2008). As a consequence of the 2002 EU directive on employee consultation, in 2006, a legal obligation was introduced for companies with more than 50 employees to establish a works council if requested to by at least 10% of the workforce. Works councils possess only information and consultation rights and no codetermination rights such as those in the Netherlands (Jürgens & Krzywdzinski, 2009). Of the eligible companies, approximately 11% had created works councils by the end of 2008 (Towalski, 2009). Even here, owners often refuse to provide the information they are legally required to provide (Lungwitz *et al.*, 2008).

The SME sector is generally characterised by its sluggish development. SMEs operate at a relatively low technological level while their treatment of the workforce is rather traditional. They are slow to introduce advanced human resource management practices (Listwan *et al.*, 2009). Training, in SMEs, if it occurs at all, is mostly performed in the form of on-the-job training. Surprisingly, SMEs provide training more often for shop-floor employees than for professionals and managers (Listwan *et al.*, 2009). This may be related to the cost of on-the-job training compared to that of off-the-job training combined with on-the-job training making much less sense for professionals and managers than for shop-floor employees.

Personnel management is generally accomplished at the discretion of the owner-manager (Listwan *et al.*, 2009). This implies that interaction is minimal and likely to take the form of conflict (Crouch, 1993). SMEs that are part of the supply chain of western firms especially attempt to minimise labour costs in order to remain competitive (Lungwitz *et al.*, 2008). I contend that, all in all, the industrial relations system in Poland, especially with regard to SMEs, can be characterised as a pluralistic bargaining model. Bargaining power of SME employees in this aspect is extremely low since they are infrequently organised in trade unions (Crouch, 1993; Lungwitz *et al.*, 2008). This implies that employees respond to experienced unjust acts by means of exit. Due to a lack of alternatives, this may take the form of ‘internal’ exit in the form of alcohol abuse, misappropriation, etc. (Meardi, 2007).

5.6 ESTONIA

In Estonia, just as in the other CEE countries, trade unions during the socialist period fulfilled a different role in the industrial relations system than in the market economy. At that time, trade unions were a continuation of the state apparatus intended to ensure fulfilment of the plan requirements. This, for instance, could result in the neglect of health and safety issues if such neglect positively affected achieving the required output targets. Fulfilment of plan targets and requirements was pursued by exploiting ‘stick-and-carrot’ policies. On the one hand, unions attempted to achieve plan fulfilment through control of worker behaviours and activities. On the other hand – in accordance with the principles of state paternalism – it was attempted by increasing worker dependence on the enterprise through the provision of fringe benefits in the form of social insurance and fa-

cilities such as housing benefits and holiday vouchers (Kooskora, 2005; Sippola, 2009; Woolfson *et al.*, 2008).

Despite these experiences, the general position toward the market economy in Estonia has developed rather negatively as a result of the ‘wild-west’ capitalism dominating the early transition period. Many entrepreneurs during that period were perceived to have acquired their capital in dishonest and illegal manners (Alas & Tafel, 2008). The negative influence of the transition privatisation on employment security also facilitated the negative perception concerning the market economy (Sippola, 2009). Disillusionment with the present market economy made Estonians nostalgic and long for the past plan economy (Kalmus & Vihalemm, 2006).

Additionally, during the transition period, labour conditions in Estonia, on the whole, deteriorated. For example, the advent of the market economy did not result in improvement of the health and safety situations. On the contrary, the pressure from competitive markets led to employers neglecting health and safety issues and to increasing work intensification. Furthermore, the conditions under which the market economy was introduced led to increasing ‘informalisation’ of labour, for example, in the form of increased ‘self-employed’ labour, and downgrading of labour standards directed at increasing numerical labour flexibility and compliance with company objectives. Deterioration occurred in various forms. Permanent contracts were increasingly replaced by fixed-term contracts. In many cases, employers did not provide employees with written employment contracts. As in Poland, many employers evaded paying payroll taxes and social security contributions by unofficially paying only part of the wage (‘envelope’ wages). Social surveys report that working overtime is ubiquitous, and there is often no recompense of wages for this overtime. Delayed payment of wages is a regular phenomenon as well (Woolfson, 2007a; Woolfson *et al.*, 2008; Woolfson, 2007b).

Also, as in Poland, trade unions do not form an effective countervailing power to employer power. Union density is presently approximately 15% (Michailova *et al.*, 2009). Many workers still contemplate unions with suspicion due to unions’ roles under communism. Union membership is concentrated in the public sector and the larger former state enterprises where trade unions are allowed to exert pressure on employers to abide by legal health and safety regulations (Woolfson, 2007b).

Consequently, in general, workers responded to the deteriorating working conditions and the accompanying lack of voice opportunities in their hierarchical and authoritarian working environment through exit. It is estimated that, since the Es-

tonian accession to the EU, approximately 5% of the total workforce has migrated abroad. The two most often mentioned motives for migration were the improvement in pay and working conditions (Woolfson *et al.*, 2008). The inflow of foreign direct investment as a result of the EU accession only minimally resulted in improvement of the situation since it primarily intended to profit from cheap labour, implying that foreign investors, though not individually employing informalisation strategies, did not pressure their domestic suppliers to improve the working conditions in their companies (Woolfson, 2007b).

With regard to industrial relations, the Estonian situation can be characterised as a pluralistic bargaining model. Industrial relations are characterised by distrust as an inheritance from the Soviet period. This incites employees to search for individual solutions to collectively experienced problems. Consequently, dissatisfaction with the prevailing situation at work leads employees to seek recourse to exit either through migration, working in the informal sector, or ‘sabotaging’ behaviour in the workplace (Woolfson, 2007a). Though the level of employment protection essentially does not differ from the EU average, enforcement is far less stringent than in the ‘old’ EU member states which enabled massive evasion of employment protection regulation (Sippola, 2009). Furthermore, employers are free to dismiss workers if there is insufficient work and can select, at will, the workers they want to dismiss. In addition to all of this, regulations concerning the employment of temporary labour are far less strict than in the old EU member states. Regulation regarding collective dismissals is more stringent and more expensive than the EU average but has little actual effect due to the lack of enforcement (Gonser, 2011).

Incidence of collective bargaining agreements is with 25% even lower than in Poland. Collective bargaining agreements are negotiated generally at the company level and are also legally binding for non-unionised workers. The overwhelming majority of workers, therefore, bargain on an individual basis with their employers for their labour conditions (Sippola, 2009).

With regard to participation, this is limited to information and consultation, if participatory systems are established at all. Issues are mainly restricted to matters such as working times, work organisation, and health and safety. Management attitude toward employee participation, in fact, continues as a legacy from the Soviet times (Kooskora, 2005; Sippola, 2009).

5.7 CONCLUSION

This chapter described the relevant aspects of the case study companies and the countries forming the setting of the empirical research in order to enable identifying the factors which may affect the introduction, transfer, and implementation of employee-oriented CSR in Dutch multinational SMEs. Relevant company factors are size in terms of employees, ownership structure, sector, investment motive, and the role of employees in the competitive advantage. With regard to countries, relevant aspects are the type of national business/industrial relations system, the role of hierarchy in employment relations, the role of trust in employment relations, and the differences in enforcement of relevant labour regulation. Tables 5.1, 5.2, and 5.3 present an overview of these characteristics for companies and countries, respectively.

Table 5.1 Characteristics parent companies

firm	employees		sector	imp. emp. KSAs*
	parent	total		
Valve Co NL	23	30	manufacturing	high
Paint Co NL	44	55	manufacturing	high
Horti Co NL	15	35	agricultural	high
Packing Co NL	45	160	services	high
Rubber Co NL	100	143	manufacturing	high
Harvest Co NL	-	18	agricultural	-
Metal Co NL	3	98	manufacturing	high

* imp. emp. KSAs = importance employee KSAs

As can be ascertained from Table 5.1, case study companies vary widely in size between approximately 20 (Extraction Co) to 160 (Packing Co) employees. Size may be expected to affect professionalization and formalisation of relations with employees. Companies operate in the agricultural, manufacturing, or services sectors. Investment motives varied between market seeking, efficiency seeking, and resource seeking motives. Investment motives are assumed to affect probability of transfer of employee-oriented CSR in that market whereby asset seeking motives are more conducive to transfer than efficiency seeking motives. Table 5.2 demonstrates that

Table 5.2 Characteristics subsidiaries

Firm	employees	sector	importance employee KSAs	investment motive	ownership structure
Valve Co PL	7	manufacturing	low	efficiency seeking	100%
Paint Co PL	8	manufacturing	high	market seeking	100%
Horti Co EST	20	agricultural	high	resource seeking	75%
Packing Co PL	8	services	high	market seeking	100%
Rubber Co NL	43	manufacturing	low	efficiency seeking	51%
Harvest Co EST	18	agricultural	high	resource seeking	100%
Metal Co PL	95	manufacturing	medium to high	efficiency seeking	100%

Table 5.3 Characteristics national institutional environments

Country	industrial relations	employment relations	trust	enforcement labour code
The Netherlands	neo-corporatist	consensual	high	strict
Poland	contestational	hierarchical	low	weak
Estonia	contestational	hierarchical	low	weak

companies with market or resource seeking motives generally consider employee KSAs more relevant for competitive advantage than employee cost, while the opposite pertains to companies seeking efficiency advantages. With regard to ownership structure, a similar dichotomy is expected; companies with fully owned subsidiaries are believed more likely to transfer employee-oriented CSR, for instance, because creating a comparable organisational climate may be considered more relevant by management.

With regard to the countries comprising the empirical research, the conclusion is that the Dutch institutional environment differs radically from both the Polish and Estonian institutional environments. This is poignantly illustrated in Table 5.3. Differences do not so much apply to the regulative institutions – though enforcement practices definitely vary between the Netherlands, on the one hand, and Poland and Estonia on the other – as they do for the differences in cognitive and normative institutions. The neo-corporatist Dutch industrial relations system promotes cognitive and normative institutions that are quite compatible with employee-oriented CSR. The central role of consensus entails that communication between management and employees and participation of employees in consulting and decision-making processes, up to a certain extent, are considered as normal aspects of the business process. Due to the central role of hierarchy within organisations, the accompanying autonomy of management, and the pluralistic bargaining industrial relations system, employee participation is generally perceived far less favourably in Poland and Estonia and is much less common there than in the Netherlands. Furthermore, employee-oriented CSR requires trust as the basis of the company's organisational climate for both employees and management. In a high-trust society, such as the Netherlands, this trust is easier to build and maintain than in the low-trust societies of Poland and Estonia. In conclusion, institutional distance regarding the employment relations area between the Netherlands and Poland and Estonia is significant and will complicate the process of transferring of employee-oriented CSR from Dutch parent companies to subsidiaries in Poland and Estonia.

CHAPTER 6

BASIS AND DESIGN OF THE CASE STUDY FIRMS' HOME COUNTRY EMPLOYEE RELATIONS ARRANGEMENTS

6.1 INTRODUCTION

In this chapter, the foundation, structure, intended effects, and employee perceptions and outcomes of the employee relations arrangements of the individual case study firms' parent companies are described and analysed. The basis of the employee relations arrangements is expected to be related to the owner-managers' opinion of employees as legitimate stakeholders and to the perceived power of employees. The design of the employee relations arrangement comprises the nature of firms' organisational climates and the design and execution of HR practices. The intended effects concern the arrangement's envisaged effects on employee performance. Subsequently, employee perceptions of the owner-manager's other-regarding values, organisational climate, and HR practices are addressed. Finally, both employee and firm outcomes of the employee relations arrangement are discussed. As has been elaborated in Chapter 4, aggregations are based on interviews with owner-managers, HR staff, and employees as well as on a survey among the workforce of the companies.

The empirical findings per company are related to the various relevant elements of the conceptual model. Subsequently, it is analysed to what extent each of the propositions concerned appears to pertain for that specific company. This procedure is repeated for each company in Section 6.2 to Section 6.8. Section 6.9 contains the cross-case analysis in which differences and similarities between the companies regarding their employee relations arrangements are discussed. A graphical presentation is constructed with other-regarding values and employee power as axes. Based upon the preceding discussion, both parent companies and subsidiaries are positioned in this graph, thereby visualising which primary type of employee relations arrangements is applicable. Thereafter, it is argued to what

extent the conceptual model must be modified on the basis of the empirical findings. Finally, Section 6.10 presents the conclusion of this chapter.

6.2 VALVE CO

6.2.1 Legitimacy of employees as stakeholders

The interviewed owner-manager of Valve Co states that his attitude towards employees as stakeholders is constructed on two basic values. First, he operates from the assumption that employees reciprocate his trusting behaviour towards them.

“You have to put your trust in people and say, well, we make these arrangements and within these rules of the game we work with each other. But you must also give freedom to people, because that creates trust and then they can develop themselves and feel good. That’s the way we see it.”

(owner-manager)

Secondly, he considers himself to be the steward of the company whose obligation consists of passing on a healthy company to his successors.

“Five years ago we signalled that over the coming five years three men would retire, each of whom had more than 30 years of experience. These men deliver perfect work and see to it that everything leaving the factory is in perfect order. So you put them together with younger people so that they can transfer their knowledge and skills. That decreases profit in the short run, but it supports the firm’s continuity. You are a steward and, in 50 years’ time, I hope the firm still exists despite that I won’t be running it anymore.”

(owner-manager)

Valve Co’s owner-managers consider employees to be their most significant stakeholder group. In this aspect, they make no distinction between the various categories.

"Staff is most important because they form your assets; they do the work. Customers come and go, but your employees stay."

(owner-manager)

Combined with the concept of stewardship this results in the conviction of both owner-managers that employment security for the permanent employees is a necessary means to achieve their ends. The company attempts to guarantee employment security for the permanent employees by making production more capital intensive which lowers relative labour costs and by employing an intermittent labour force for temporary production peaks. Job satisfaction is considered another cornerstone of firm performance:

"If people feel no satisfaction in their work, you face a standstill as an organisation."

(owner-manager)

The owner-managers encourage employees to express their ideas about how to improve work processes with the opinion that the people who actually perform the job are the most knowledgeable about it. Management attempts to implement improvement suggestions within the firm's financial possibilities and always communicate to employees what will occur with their suggestions. However, not all employees feel a need for involvement.

In conclusion, the owner-manager definitely considers employees to be legitimate stakeholders whose needs and interests must be catered to, however, legitimacy is established in employees' instrumentality to the firm. This is also exhibited with his perception of employee needs and interests; especially those employee needs and interests, e.g., job satisfaction, whose fulfilment furthers the achievement of company objectives are relevant.

6.2.2 Employee power

The significance of employees as stakeholders is based on the perceived employee contribution to the firm's competitiveness: employee KSAs are considered essential for improving firm performance.

“The knowledge among the workforce, in the broadest sense of the word – production knowledge, product knowledge, sales knowledge, purchases knowledge – enables us to make a living.”

(owner-manager)

Offering employment security is expected to cement employee trust in the company which is required in order to create commitment which is subsequently perceived to further employee initiative, creativity, and willingness to do more than what is required to reach a goal, if necessary. Additionally, the owner-managers consider the power of employees as bolstered by the power of trade unions which emphasises the importance of a positive relationship with employees for achieving the company's goals.

‘Many employees are member of the union, the CNV [Christian National Trade Union]. I think it is good that there are unions; otherwise, you would have to negotiate with everyone individually about their wage and other demands. Contracting at group level is much easier for both employees and employers. And it offers protection.’

(owner-manager)

The arguments above imply that management's perception of employee KSAs as being critical to firm performance stimulates them to take into consideration employees' work-related needs and interests. In addition to all of that, the arrangements in the collective bargaining agreement require management to address employee needs and interests in their own right as well. Combined with management's instrumental perception of employees' legitimacy as stakeholders, this signifies that (soft) HRM is preferred as an employee relations arrangement.

6.2.3 Valve Co's employee relations arrangement

In accordance with the perceived criticality of employee KSAs to competitive advantage, Valve Co attempts to incorporate employee needs and interests in the design of their personnel policies and practices. This concerns needs and interests as identified and defined by the firm: employment security, job satisfaction, and voice. With respect to the first, management conveys the message to employees that layoffs as a result of negative firm performance – for example, due to adverse

macro-economic conditions – will only occur if the survival of the firm is at risk. Thus, the company strives for an organisational climate characterised by organisational justice, transparency, and the free use of voice.

This desired organisational climate, however, at least with respect to transparency and free use of voice, represents a fundamental breach with the past. Until recently, the firm's organisational climate was characterised by a predominantly top-down management approach with little opportunity for employee contributions. Ever since the interviewed owner-manager took office a few years ago, management deliberately attempts to make the organisational climate more employee-friendly by affording employees opportunities to freely use voice. This is accomplished through direct participation in the form of upward problem-solving and greater job discretion. Management's intention is to create greater employee commitment to the company.

"You can use the best machinery as Valve Co and put down the most beautiful plant, but if the workers in that building don't do their work with pleasure, you as a company cannot develop. In a small organisation you just need people to put their shoulders at the wheel and feel themselves at ease and talk and spout their ideas".

(owner-manager)

However, it has been ascertained that just a radical breach in management approach to employees does not lead to an equally radical breach in employee attitudes toward their work and toward the firm.

"This is a laborious and energy-consuming process. There is a wall between office and factory. I never believed in it, but it is there. There is a difference in culture and the approach of issues. But we try to tear down that wall and to get to interaction so that in the factory as well the feeling is created that we do something with their ideas."

(owner-manager)

Employee attitudes and expectations that have been ingrained over a great number of years are not changed overnight. Furthermore, employee willingness to change may be negatively affected by their observation that the company's needs and interests instead of those of employees have been the instigation in bringing about change in the management approach.

Pay levels are according to the arrangements agreed upon in the collective bargaining agreement. The pay structure is transparent since function groups and the accompanying pay are dictated in the collective bargaining agreement. Pay was previously dependent upon performance as evaluated during the performance appraisal.

“We stopped this practice because our starting point is that everyone works good. Should you not work as expected, then you have a discussion how you can improve this, for example, through training.”

(owner-manager)

Instruments to develop and utilise employee KSAs assume a central position in Valve Co's employee relations arrangement. Job satisfaction is considered the essential variable to achieve the desired state of affairs. According to management, the level of job satisfaction depends on employment security, involvement, development opportunities, job discretion, and the company's transparency. Transparency is realised through formalisation of personnel policies, amongst other things, by specifying rules and procedures in a personnel handbook, for example, regarding performance appraisal as well as courses and training. The problem, however, is finding the time to keep this handbook up-to-date.

Employees are stimulated to take courses and training. In order to accomplish this, based on the collective bargaining agreement in the metal sector, a budget has been made available from a foundation operated by unions and employer associations in the metal sector. The individual firms provide facilities in the form of time. A positive side-effect is the advanced functional flexibility that results from this. Development is an important issue in the performance interviews.

“To us, it is important to find out what a person wants. We support and motivate them to take courses. People make use of it and that's beautiful. Two colleagues, for example, have been to Germany for two days for a course on the machines they use.”

(owner-manager)

With regard to participation, the company is too small to support a works council. Employee involvement occurs through bimonthly consultation and information meetings with the entire workforce in which sales development, health and safety, as well as management actions and decisions are subjects that are regularly read-

dressed. In order to facilitate two-way communication, employees are provided with the agenda before-hand so that they are able to suggest input as well. Subsequently, management indicates what will occur with the submitted input.

"[...] you may say, for example, why don't we buy a new saw-bench? That you can argue by saying that we have chosen for a new processing centre. And subsequently we have said, well, we can renovate the old one so it will function like new. And we don't choose for a new saw-bench, but this feedback is essential for acquiring commitment with the workforce."

(owner-manager)

The level of job discretion is dependent upon the employee's function, as not all jobs lend themselves to high degrees of discretion. Sales persons arrange their activities completely independently. In the production department, the foremen and the planner discuss the planning of activities on a weekly basis. Foremen discuss the distribution of tasks among the individual employees within their teams. Making suggestions and taking initiative are positively appreciated by management and, thus, stimulated. In performance appraisals, employees are allowed to indicate their career choices, though opportunities in this respect are limited due to the company's moderate size.

Performance interviews are always conducted by two persons so that one can take minutes while the other can focus on the discussion. Performance interviews are intended to be dialogues and, in principle, not meant to discuss grievances. The owner-manager prefers that grievances be discussed with him or his partner the moment they arise. If a conflict threatens to evolve at the expense of the company, then a person may receive a registered letter warning of serious consequences in the event of recurrence. This letter is also included in the personnel file. Finally, work-life balance issues do not feature regularly on the performance interview agenda but are addressed rather incidentally; however, a policy is being initiated with regard to the flexibilisation of working times.

"We have a very mixed company here ranging in age from 20 to 61 years, both men and women. So, you are faced with very different phases in the life cycle. It is not always easy to find a balance between the situation at home and at work. We are very flexible but, on the other hand, we want equal treatment for all. If you allow one person to

work four days of nine hours, you have to allow that to others as well."

(owner-manager)

In conclusion, the combination of relatively strong employee power and high instrumentally-based employee legitimacy is evidenced in an employee relations arrangement that can best be described as soft HRM. Valve Co employs a number of advanced practices with which soft HRM is commonly associated. Accordingly, Valve Co's employee relations arrangement is explicitly directed towards mobilising employees' KSAs in order to achieve the best possible results for the company. Though elements of employee-oriented CSR – e.g., the firm's policy with regard to offering employment security and efforts to increase job satisfaction – are apparent in the employee relations arrangement, they appear to be based on instrumental rather than social motives. In the organisational climate, this appears to be reflected in the hesitant attitude of production employees, in particular, regarding the transition of a top-down to a bottom-up approach by management. HR practices generally do not go beyond what legislation and collective bargaining contracts prescribe.

6.2.4 Employee perceptions

6.2.4.1 The owner-manager's other-regarding values

The analysis of the manner in which Valve Co's workforce perceives owner-managers' other-regarding values and the company's employee relations arrangement is entirely based on the questionnaire distributed among employees. Nine out of 23 employees filled out and returned this questionnaire which culminates into a response rate of 39.1%. Of these nine employees, two were blue-collar workers and seven white-collar workers. This implies that production workers are strongly underrepresented in the response and, thus, the results for blue-collars must be interpreted very carefully.

Table 6.1 demonstrates that employees rate Valve Co's owner-managers' overall level of other-regarding values towards the workforce positively while the difference between blue-collar and white-collar employees appears negligible. Even the lower limit of the interquartile range remains positive.

Table 6.1 Perceived other-regarding values Valve Co

	N	mean	lower quartile	median	upper quartile
all employees	9	3.96	3.67	4.00	4.28
blue-collar	2	3.94	3.44	3.94	4.44
white-collar	7	3.97	3.78	4.00	4.11

6.2.4.2 Union power

Employees perceive management's attitude towards union membership of the company's employees as neutral. Furthermore, they experience union power more as a general support for the protection of employee interests rather than as a force standing up for their individual interests within the company. This may be explained by the lack of mechanisms in the company through which union influence can make itself directly evident. On the other hand, unions exert indirect influence through the arrangements in the collective bargaining agreement, e.g., with regard to facilitating courses and training. Two (white-collar) respondents indicate that they are trade union members (see Tables A2.1 and A2.1). The positive appreciation of management's level of other-regarding values combined with management's non-confrontational approach of unions may be expected to be reflected in employees' assessment of the company's organisational climate.

6.2.4.3 Organisational climate

As indicated from Table 6.2, the organisational climate is perceived as positive by white-collar workers in all aspects, especially the relationships with management, while blue-collar workers appear to have a more neutral appreciation. Despite the low response rate among the blue-collar workers, this outcome seems to be representative of the general opinion of blue-collar workers since this is in accordance with the owner-manager's observation that the company is experiencing a transition process towards creating a more participative and employee-friendly climate which, in practice, primarily results in a change in the attitude towards production workers. This is mirrored in the relatively low assessment of

Table 6.2 Employee perception of Valve Co's organisational climate and its underlying aspects

construct	category	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	2	3.03	2.50	3.03	3.56
	white-collar	7	4.05	3.94	4.00	4.31
	all employees	9	3.83	3.63	3.94	4.13
free use of voice	blue-collar	2	3.10	2.60	3.10	3.60
	white-collar	7	3.91	3.80	4.00	4.00
	all employees	9	3.73	3.60	4.00	4.00
transparency	blue-collar	2	2.80	2.20	2.80	3.40
	white-collar	7	3.91	3.20	4.00	4.40
	all employees	9	3.67	3.20	3.80	4.20
relational atmosphere	blue-collar	2	3.17	2.67	3.17	3.67
	white-collar	7	4.29	4.17	4.17	4.33
	all employees	9	4.04	4.00	4.17	4.33

quart. = quartile

all aspects of organisational climate where especially transparency is prominently negative. White-collar workers assess all aspects positively, especially the relationship with management. This white-collar/blue-collar distinction is also evident in their assessment of how grievances are managed: blue-collar workers believe the management of grievances to be average while white-collar workers are much more positive (see Table A2.3).

6.2.4.4 HR practices

From Table 6.3, it can be inferred that white-collar employees consider HR practices, in their entirety, less positively than the organisational climate while the responding blue-collar employees are more positive. For white-collar workers, the perceived other- regarding values of management are apparent in the relational

Table 6.3 Assessment HR practices as a whole and individual HR practices by Valve Co's employees

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	1	3.36	3.36	3.36	3.36
	white-collar	7	3.73	3.59	3.77	3.86
	all employees	8	3.68	3.50	3.77	3.82
courses and training	blue-collar	2	3.70	3.40	3.70	4.00
	white-collar	7	3.80	3.40	3.80	4.00
	all employees	9	3.78	3.40	3.80	4.00
working conditions	blue-collar	2	3.67	3.33	3.67	4.00
	white-collar	7	3.86	3.33	4.00	4.00
	all employees	9	3.81	3.33	4.00	4.00
job discretion	blue-collar	2	3.13	2.25	3.13	4.00
	white-collar	7	3.54	3.00	3.75	4.00
	all employees	9	3.44	3.00	3.75	4.00
work-life balance	blue-collar	1	4.00	4.00	4.00	4.00
	white-collar	7	3.71	3.33	4.00	4.00
	all employees	8	3.75	3.50	4.00	4.00
Pay	blue-collar	2	4.25	4.00	4.25	4.50
	white-collar	7	3.71	3.50	3.75	4.00
	all employees	9	3.83	3.50	3.75	4.00
internal labour market	blue-collar	2	2.83	2.67	2.83	3.00
	white-collar	7	3.76	3.33	4.00	4.00
	all employees	9	3.56	3.00	3.67	4.00

quart. = quartile

atmosphere between management and employees rather than in actual HR practices, working conditions being somewhat of an exception. Blue-collar workers appear to be particularly satisfied with the pay system and level of pay.

6.2.4.5 *Employee outcomes*

Table 6.4 demonstrates that employees' assessments of the extent to which the outcomes of Valve Co's employee relations arrangement provide for their needs and interests with regard to their working life is slightly less positive than their assessment of HR practices and organisational climate. Though job satisfaction is fairly high – especially for the two blue-collar respondents – experienced employment security is rated only barely above average while the level of work-related stress is considered average. This latter aspect may be related to job discretion which was also rated as average.

Table 6.4 Appreciation employee outcomes employee relations arrangement at Valve Co

construct	category	N	mean	lower quart.	median	upper quart.
employee out-comes	blue-collar	2	3.82	3.43	3.82	4.21
	white-collar	7	3.59	3.36	3.64	3.71
	all employees	9	3.64	3.43	3.64	3.71
job satisfaction	blue-collar	2	4.14	3.86	4.14	4.43
	white-collar	7	3.78	3.43	3.86	4.00
	all employees	9	3.86	3.71	3.86	4.00
employment security	blue-collar	2	3.63	3.25	3.63	4.00
	white-collar	7	3.61	3.50	3.75	3.75
	all employees	9	3.61	3.50	3.75	3.75
work-related stress	blue-collar	2	3.33	2.67	3.33	4.00
	white-collar	7	3.14	2.67	3.33	3.67
	all employees	9	3.19	2.67	3.33	3.67

quart. = quartile

6.2.4 6 *Employee relations arrangement overall*

Overall, the positive employee perception of owner-managers' other-regarding values seems to be primarily associated with the company's organisational climate which – at least by the white-collar employees – is judged equally positively. With regard to the extent to which HR practices and the outcomes of the employee relations arrangements, the verdict is less favourable. This may indicate discrepancies between management's intended HR practices and employee perception of those practices. This deficiency, however, is sufficiently moderate to conclude that, based on employees' perceptions, Valve Co's employee relations arrangement can be characterised as employee-oriented CSR.

6.2.5 **Employee performance**

The owner-manager expects the parent company's employee relations arrangement to result in increased innovativeness. Free use of voice and job discretion stimulate salespersons to cogitate the issues that are important to the company's customers. They are aware of how to translate these issues into needs in such a way that they can be managed by the technical department. Both designers of adapted products and production employees are expected to contribute ideas to improve products and production processes. However, as yet, this process does not function according to expectations due to the newness and unaccustomedness of use of voice and job discretion.

*“So interaction and giving freedom to people is a very slow process.
For two years now, I am busy to motivate people to get active again.
[...] but I have to admit you have to get the results from tiny things.”*
(owner-manager)

Employee loyalty to the company is indicated to be strong as evidenced from very minimal turnover and absenteeism. Employees demonstrate considerable appreciation for the organisational climate within the firm.

This observation, to a certain extent, concurs with employee perception of the organisational climate (see Section 6.2.3). Furthermore, Table 6.5 exhibits that employees, indeed, feel substantial loyalty to the firm which is expressed in a willingness to put forth more effort for the firm.

Table 6.5 Employee commitment at Valve Co

construct	category	N	mean	lower quart.	median	upper quart.
employee commitment	blue-collar	2	3.63	3.25	3.63	4.00
	white-collar	7	4.11	3.75	4.00	4.50
	all employees	9	4.00	3.75	4.00	4.25

quart. = quartile

All in all, it can be established that the ‘new style’ employee relations arrangement realises management’s expectations with respect to turnover, absenteeism, loyalty, and a willingness to put forth extra effort when required. In that aspect, the employee relations arrangement is believed to contribute to cost savings. However, regarding productivity and innovativeness, the arrangement presently appears to be proving inadequate for the expectations.

6.3 PAINT CO

6.3.1 Legitimacy of employees as stakeholders

The owner-manager collectively considers employees and customers as the most essential stakeholders in the context of creating prosperity for the company.

“Looking at the interests of the various stakeholder groups, for me, customers take the first place but together with the workforce. [...] Without customers, I cannot exist. But without employees serving the customer, I cannot exist either.”

(owner-manager)

He makes no distinction between functional categories of employees since all categories are essential for securing the firm’s survival and prosperity. However, due to their relatively increased level of job discretion and because of their close contacts with customers, salespersons’ influence regarding firm performance is determined to be greater than that of the other categories. On the whole, the owner-manager’s opinion regarding the role and position of employees is rooted

in a firm belief that, in order to utilise employee KSAs fully to the benefit of the company, the employee needs of job satisfaction and employment security must be fulfilled as is witnessed by the following two quotations:

"If people feel good, they come whistling to their work. [...] That indeed sounds very idealistic, but I am certain that what is good for the people is also good for the company. Then you get a spiral upwards."
(owner-manager)

"People need security, and I try to take that into account. [...] They must not fear loss of their job and income because then they are distracted too much. Where Akzo fires 150 sales people, I hire another ten. Here, and in Poland, people make the difference for firm performance. That is my firm belief."
(owner-manager)

The emphasis on employment security as a basic need of employees suggests that the owner-manager acknowledges the urgency of employees' claim as stakeholders in the firm. Along with making no distinction between various categories of employees on non-functional grounds, other-regarding values are also apparent from his assumption that employees will reciprocate his trusting behaviour towards them.

"People want to get and deserve trust. That is important because, eventually, it improves firm performance. That relationship is difficult to explain because they are inextricably intertwined. If the people do well, the company will prosper as well. The reverse is equally true."
(owner-manager)

In conclusion, the owner-manager definitely considers employees to be legitimate stakeholders; however, this legitimacy perception is dependent upon employees' benefit to the firm. This is also demonstrated from his perception of employee needs and interests; especially those employee needs and interests whose fulfilment furthers achievements of company objectives are relevant. Nonetheless, employees' needs for employment security as an end in itself seems to underlie the owner-manager's statement that:

"[A low-cost strategy] does not make sense, [...] Then I should have to relocate my production plant to Poland. I have people here who

have been working for the company for fifty years, who have come to work in the factory straight from elementary school; no, they are simply expensive people. [...] We cannot supply at the lowest possible cost. And we cannot go back on that road either."

(owner-manager)

6.3.2 Employee power

Though Paint Co considers the contribution of all functional categories of employees to be necessary for achieving the company's objectives, they differentiate between the significance of each category's contribution. The KSAs of sales representatives, in particular, are perceived to affect Paint Co's competitive advantage due to their direct contacts with customers and because of their capabilities to increase sales.

Trade unions indirectly influence general employee power since Paint Co is covered by the collective bargaining agreement for the coatings and printing ink industry. However, trade unions play no direct role of importance in the company. The owner-manager's attitude towards trade unions is rather negative:

"I don't have anything with trade unions. At times, they come here, but then they are sent away by my own employees. That union man comes in and wants to speak to me in order to tell he is going to lay down flyers in the canteen. When I get there later on, all flyers have been put in the garbage container. Here, they have nothing with unions."

(owner-manager)

The HRM advisor, however, believes that a great number of older production employees are probably union members; however, this union presence is not visible within the company. For example, there are no trade union members in the works council.

Paint Co possesses a works council which, in principle, bolsters employee power. Whether a works council is effective in supporting employee power depends, to a large extent, on the qualities and capabilities of the individual members. Paint

Co's works council appears to lack this capacity. According to the HRM advisor, members are overly focussed on personal results instead of on the broad outlines. The company engages in formal participation through a works council, not because the owner-manager believes that this body is beneficial, but because it is legally prescribed and because it was already established when he acquired Paint Co. The only real use for him is that, this way, he can make arrangements with employees, for instance, in the field of flexible working times that he cannot realise otherwise.

"Then the works council comes in very handy because, in that case, you do not have talk to everyone individually."

(owner-manager)

Employee power is also negatively affected by the almost non-existent alternative employment in the region. Compared to the conceptual model, the presence of local employment alternatives, therefore, seems to be an additional measurement of employee power. The relative lack of power of most employee categories creates the probability that 'the owner-manager's other-regarding values also weigh heavily in the design of the employment relations system.

The discussion above implies that, in the perception of the owner-manager, employee power is predominantly situated in their KSAs which he deems critical to the company's prosperity – especially the salespersons' KSAs. This is a strong incentive for him to take employees' needs and interests into consideration, in so far as these are directly related to their work, in order to elicit their optimal effort and commitment. In addition, the arrangements in the collective bargaining agreement coerce the company to take account of employee needs and interests in their own right. Combined with the owner-manager's rather instrumental perception of employees' legitimacy as stakeholders, this signifies 'soft HRM' as being preferred for the employee relations arrangement.

6.3.3 Paint Co's employee relations arrangement

In order to elicit optimal employee effort and commitment, the owner-manager takes the employee needs and interests into consideration in the design of the company's personnel policies and practices. In this aspect, he behaves on the

basis of employee needs and interests as perceived by him: employment security, pride in their work, and a positive relational working atmosphere. Thus, the employee relations arrangement seems to be (soft) HRM-based. Offering employment security is key here; he is convinced that when employees feel insecure about retaining employment, this comes at the expense of their effort, commitment, and work quality. Employment security is reinforced by job rotation which also enhances the organisation's functional flexibility. Consequently, self-regarding values triggered by perceived employee power and moderated by other-regarding values underlie the firm's arrangement.

The owner-manager, therefore, strives for an organisational climate that is optimally appropriate for eliciting the desired employee commitment effort. In order to achieve this, employees must be convinced that their employment prospects are secure; they must be stimulated to develop pride in their work and in the company; and they must be encouraged to exercise voice. He expects that these three aspects of the organisational climate collectively lead to the generation of mutual trust, job satisfaction, and commitment.

"People just have to take pride in their work. A few weeks ago, we had an open day. [...] I had sent every employee a personal invitation to bring their friends, their relatives, their neighbours or whoever else to the open day here at the plant. Well, that got a bit out of hand, there were 400 people. Super. And then you see how proud people are at what they do. [...] That is really what I want. I want that people say 'I work at Paint Co'."

(owner-manager)

According to the HRM advisor, the relational sphere is open, *"but it always remains a relationship between boss and subordinate. That always results in some friction. Here it is open and accessible, but not everyone knows his way around in this."* (HRM advisor)

Actual personnel policies and practices are formalised and professionalised only to a very limited degree. Management's lack of time is said to be the most significant obstacle to further formalisation and professionalization. In response to this, an external HRM advisor has recently been hired to create and develop personnel policy and practices. Until this recent development, however, professionalization has been limited to recruitment and selection, prevention of protracted absenteeism, and reintegration of long-term absentees in the workplace.

In the literature, formalisation of personnel policies is argued to contribute to transparency, one of the basic needs and interests of employees (see e.g., Edgar & Geare, 2005; Guest, 2007; Van Buren, 2005). Investigating the moderate degree of formalisation of personnel policies and practices at Paint Co, transparency may be expected to be minimal. Although, this does not apply to pay, since the wage structure has been dictated corresponding to the agreements contained within the collective bargaining agreement. Only salespersons are able to earn additional money through bonuses related to the amount in sales they realise. However, the owner-manager believes that the effect of performance-related pay is limited.

At Paint Co, there are both direct and indirect participation practices, but

'informal participation is more important than formal participation'
(owner-manager).

The owner-manager communicates about (financial) company performance and planned strategies with the works council on a monthly basis. The works council subsequently communicates this to the workforce. Once or twice per year, the total workforce is more extensively informed about these subjects. Additionally, employees receive information through Paint Co's staff magazine. Informal participation is generally limited to the individual level in the form of job discretion. Production workers, however, do not have much freedom in this respect since the nature of their activities and the order in which these are performed are quite rigid. Another individual form of direct employee involvement strongly appreciated by management is making suggestions to improve products or production processes. More collective forms of employee involvement such as team consultation are virtually non-existent. Only the sales team meets regularly to discuss the current business. On the whole, it appears that the need of employees for information sharing and involvement in decisions that may affect their situation is addressed in only a limited manner.

With regard to the exercise of voice in the event of dissatisfaction, there is no formal grievance procedure. Usually, employees are expected to initially bring their conflicts to the attention of their line manager. If the line manager cannot resolve the issue, the external HRM advisor will subsequently act as a mediator, if necessary, with the assistance of a third party, for instance, the company doctor. If still no solution can be found, then the owner-manager will eventually make

the final decision. No independent external party is involved in the grievance procedure. Absence of independent third parties in and the informal character of grievance procedures may deter employees from using voice.

Management attitude toward personal development of employees is positive, however, due to the company's small size, there are limited career opportunities. The company prefers filling vacancies for higher positions from within. In that case, training is provided, if necessary. According to the external HRM advisor, this could be accomplished in a more systematic way as management only occasionally upgrades employee skill levels systematically. Recently, for example, all production employees participated in a course to acquire the officially recognised certificate of 'craftsmanship coatings'.

Nevertheless, on the whole, initiative for taking training must generally be initiated by the individual employees. This is subsequently facilitated by management dependent on the added value of that specific training for the company itself. As a component of the policy to achieve greater functional flexibility, production employees receive on-the-job training to facilitate job rotation. Employees can express their wishes with regard to courses and training in performance interviews that are conducted as part of a performance appraisal which is an instrument which can be exploited to increase employee performance as well as employee development. At Paint Co, it is utilised in both functions; however, the evaluation of performance is not related to pay. The performance appraisal is one of the few formalised personnel practices within the company, though it is not an establishment-wide standard practice nor are performance appraisals conducted on a yearly basis as of yet. This seems to be caused by lack of time for the line managers.

There is only an incidental work-life balance policy. In the event of problems in their private lives, the company examines case by case whether and how it can be of assistance. The beginning point is the approach that the company would like to provide a helping hand. One manner whereby they attempt this is by offering flexible working times. For example, if an employee must be home more often due to an illness of family members, the company does more than legal regulations demand. However, there is no formal policy for improved balancing of working and private lives beyond the arrangements in the collective bargaining agreement and the legal regulations in this area.

In conclusion, the combination of relatively strong employee power and high instrumentally-based employee legitimacy is apparent in an employee relations arrangement designed by the owner-manager that can best be described as HRM-based and not as employee-oriented CSR. Though Paint Co makes little use of the advanced practices with which HRM-based employee relations arrangements are commonly associated, and despite the largely informal structure of HRM policies, Paint Co's employee relations arrangement is explicitly geared towards mobilising employees' KSAs in order to achieve the best possible results for the company. Though elements of paternalism – e.g., the firm's policy in assisting employees to cope with occasional problems at home and the owner-manager's opinion regarding trade unions and employee pride of the firm – can be detected in the employee relations arrangement, they are not dominant.

6.3.4 Employee perceptions

6.3.4.1 The owner-manager's other-regarding values

The acquisition of Paint Co by the current owner-manager has been a crucial incident in the company's recent history which deeply affected the organisational climate, both in the parent company and the Polish subsidiary. It marked the turning point between a period in which the company was faring extremely poor, resulting in redundancies and increasing anxiety amongst the remaining employees that they might also become unemployed, and the present time in which the company is demonstrating unprecedented growth rates and people feel safe again.

“At the time of the acquisition, the company was in stormy weather. Well, everyone could see that the firm didn't do well. Then a manager with a completely different vision comes in and gets done that we grow strongly even during a crisis. Then you get a completely different basis for trust. Before, if you did something extra, you wanted to have cash on the nail because you did not know what would happen. Now it is rather, ‘if he says so, then I think it will happen that way’.”

(employee 2)

If the company temporarily fares more poorly, it is believed that management does not immediately resort to redundancies to lower costs and restore profitability

if only because, in that case, unrest is created among the remaining employees. However, employees perceive the owner-manager's attitude to be based more on instrumental considerations than on other-regarding values:

"I think the most important objective is that he has the opinion that the job must be done with all of us, that he cannot do it on his own. [...] Of course, it is favourable for the company. I do not believe his starting point is that people are dependent on the company for their livelihood. No, I do not think this is his first line of approach."

(employee 2)

This seems to be confirmed by the questionnaire results depicted in Table 6.6. White-collar employees perceive the owner-manager's level of other-regarding values to be at the lower end of the high range while blue-collar workers rate this at the upper end of the medium range.

Table 6.6 Perceived other-regarding values owner-manager Paint Co

	N	mean	lower quartile	Median	upper quartile
blue-collar	9	3.47	3.11	3.67	3.89
white-collar	12	3.69	3.50	3.78	3.94
all employees	21	3.60	3.22	3.67	3.89

Second, in contrast to the previous owner-manager, the current owner-manager associates personally with employees irrespective of function and position. This attitude stimulates employees to feel appreciated and respected.

"His personal association with the workforce makes that – I think – he can instil confidence that much so you get the idea that something lasting has come about [employment security, jdj]."

(employee 2)

Employees also indicate that management makes no distinction between various categories of employees, though some production workers differentiate themselves from other categories:

"Some lads who never come at the office tend to talk about 'those office punks'. Employees used to know one another from the village but nowadays many people come from outside. And unknown, unloved. But management does not make a distinction."

(employee 1)

6.3.4.2 Union power

The interviewed employees are in consensus with the owner-manager that there is no active union presence in the company. No works council member belongs to a union, and it is believed that relatively few employees are union members.

Table 6.7 Union membership Paint Co

	N	yes	no	n.a.
blue-collar	12	5	7	0
white-collar	15	4	10	1
all employees	27	9	17	1

However, Table 6.7 demonstrates that one-third of the respondents, both white-collar and blue collar, are union members which suggests that more people than expected are union members. Moreover, unions are perceived as important for the protection of employees.

"I myself am no union member just like over half of my colleagues, but I am a proponent of unions. You expect them to take charge of a collective bargaining agreement and some supervision over your organisation. [...] But the union is not active in this company. But neither are any strange things going on here."

(employee 1)

The great majority of employees seem to share the view that unions are relatively insignificant within the company but are essential for the general protection of employee rights (see Table A3.2).

6.3.4.3 Organisational climate

The previously mentioned critical incident of the change in leadership deeply affected employees' perceptions of the organisational climate, for example, with regard to communication and transparency. The new owner-manager's communication is perceived as two-way communication. Nonetheless, the interviewed employees characterise communication overall to be of limited receptivity. Not all managers are equally open in their communication to subordinates. The interviewees suggest that employees would appreciate greater openness because this positively affects their sense of security.

"Communication about firm performance is open. That also holds for the rough financial figures, not the exact figures. At the start of this year, busyness was low and then we [the works council, jdj] said we are going to work less, and we compensate that in a busier period. We presented that to the workforce and they said 'we agree'. That openness was present. Still, I have the feeling that there should be more openness. Openness is important since people then know what goes on, and they feel happier with that knowledge."

(employee 1)

On average, employees, indeed, believe transparency to be a medium which causes the assessment of the organisational climate, as a whole, to be average in quality (see Table 6.8).

The interviewed employees also perceive ample opportunity for exercising voice if individuals take the initiative. They assert, however, that there is no formal grievance procedure. According to the regularly followed informal procedure, the plaintiff addresses the supervisor or – if the grievance is about the supervisor or if addressing the supervisor provides no solution – the owner-manager about the grievance. In the latter case, it is possible that the HRM advisor is involved as a type of external party.

"In case of grievances, you go to your immediate supervisor. If the grievance concerns the immediate supervisor, you go to the owner-manager. Grievances are dealt with in a good and transparent way."

(employee 2)

Table 6.8 Employee assessment of Paint Co's organisational climate and its underlying aspects

construct	category	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	9	3.37	3.13	3.63	3.75
	white-collar	12	3.53	3.19	3.50	3.75
	all employees	21	3.46	3.13	3.50	3.75
free use of voice	blue-collar	9	3.65	3.33	3.83	4.00
	white-collar	13	3.83	3.67	3.83	4.00
	all employees	22	3.76	3.50	3.83	4.00
transparency	blue-collar	10	3.00	2.80	3.10	3.40
	white-collar	12	2.92	2.40	2.80	3.70
	all employees	22	2.95	2.60	2.80	3.40
relational atmosphere	blue-collar	9	3.36	2.80	3.20	3.80
	white-collar	14	3.80	3.40	3.80	4.00
	all employees	23	3.62	3.40	3.80	4.00

quart. = quartile

'In principle, the immediate supervisor is the first to turn to. If that does not lead to a solution, the HRM advisor is involved. [...] She is independent and solves most of the problems.'

(employee 1)

A significant minority of respondents agrees with this issue. Approximately half indicates that employees can implement outside mediation in the event of grievances. The workforce in general, however, seems to have mixed feelings about the way grievances are addressed: 37.5% of respondents indicate being dissatisfied, the same percentage is neutral, while one quarter states their satisfaction with the procedure. Employees are much more positive about the way management responds to disagreements about their decisions (see Table A3.3).

The two aspects of being required to demonstrate initiative and the lack of a formal grievance procedure are possibly expressed in the only slightly positive

appreciation of free use of voice as exhibited in Table 6.8. Furthermore, the relational atmosphere between employees and management is positively appreciated, though at the lower end of the range. Transparency is rated relatively low. While blue-collar and white-collar appreciation of use of voice and transparency are approximately equal, there is a marked difference with regard to relationships with management, which are apparently closer for white-collar employees than for blue-collar employees.

6.3.4.4 HR practices

Regarding the personnel practices, feelings are mixed. According to the interviewed employees, wages for the paint and ink industry are relatively low. The interviewed employees are positive about the development opportunities the company offers even though employees themselves must take the initiative. Perhaps this latter aspect is reflected in Table 6.9 in the rating of courses and training as average and – in the case of white-collar employees, in particular – the extensive variance in ratings. Production workers receive on-the-job training to increase functional flexibility. The informal approach of work-life balance issues leads to variance in policies in this regard among the managers concerned.

“If, caused by personal circumstances, you are less available at work, this in general meets with sympathy in the sense that you are not pinned down on your working hours. Though one manager is more flexible in this than the other.”

(employee 2)

Table 6.9 demonstrates that general employee assessment shows relatively little variation across the various HR practices. Appreciation of practices as a whole and most of the individual practices is in the upper half of the medium range. The statement that wages in the paint industry are relatively low appears to be reflected in the relatively low appreciation by especially the blue-collar employees. Only working conditions at the workplace and the level of job discretion overall are evaluated positively. With regard to work-life balance practices, there is a marked difference in assessment between blue-collar and white-collar workers. This may reflect differences in approach by managers as signalled by the interviewed employees.

6.3.4.5 Works council

Both interviewed employees are a member of the works council. They believe that management is fundamentally positive about the works council but simultaneously indicate that the council is not functioning optimally.

Certain members are inexperienced and tend to focus too much on their personal interests. Moreover, communication with the rank and file occurs more than necessary on an individual basis which may contribute to the relatively low rating of transparency by respondents, as Table 6.8 demonstrated.

"We form a new team so we have to get used to one another. [...] Last year [...], we had a course [...] and then you make a lot of promises: you are going to work on this and that and you have to take up certain projects within your company. That is still a bit laborious."

(employee 1)

They believe that the workforce, in principle, is positive about the works council. This opinion does not seem to be reflected in the outcome of Table 6.10; half of the employees have no discernible opinion on the functioning of the works council while the other half is approximately evenly divided between thinking positively and negatively about the works council though white-collar workers manifest themselves as being more outspoken than blue-collar workers. More or less, the same representation arises from the opinion of employees about how management appreciates the works council.

6.3.4.6 Employee outcomes

The interviewed employees indicate satisfaction with their job at Paint Co. Both of them positively appreciate the organisational climate of the firm. They especially appreciate their level of job discretion. Both also assert that they enjoy their work and state that a higher salary elsewhere is not a sufficient reason to immediately leave Paint Co.

Table 6.9 Assessment HR practices as total and individual practices by Paint Co's employees

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	7	3.21	2.73	3.18	3.55
	white-collar	7	3.48	3.27	3.41	3.77
	all employees	14	3.35	3.09	3.41	3.55
courses and training	blue-collar	8	3.20	2.70	3.40	3.60
	white-collar	10	3.38	2.80	3.30	4.00
	all employees	18	3.30	2.80	3.40	4.00
working conditions	blue-collar	11	3.88	3.67	4.00	4.00
	white-collar	14	3.88	3.67	4.00	4.00
	all employees	25	3.88	3.67	4.00	4.00
job discretion	blue-collar	11	3.52	3.50	3.50	4.00
	white-collar	13	3.71	3.50	4.00	4.00
	all employees	24	3.62	3.50	3.75	4.00
work-life balance	blue-collar	8	2.88	2.33	3.17	3.33
	white-collar	9	3.67	3.67	3.67	4.00
	all employees	17	3.29	3.00	3.67	3.67
pay	blue-collar	9	2.97	2.50	2.75	3.50
	white-collar	13	3.29	3.25	3.50	3.50
	all employees	22	3.16	2.75	3.38	3.50
internal labour market	blue-collar	10	3.20	3.00	3.17	3.67
	white-collar	12	3.47	3.00	3.50	4.00
	all employees	22	3.35	3.00	3.33	4.00

quart. = quartile

Table 6.10 Appreciation works council Paint Co

item	category	N	(strongly) agree	agree nor disagree	(strongly) disagree
works council functions well	blue-collar	6	16.7%	83.3%	0%
	white-collar	12	25.0%	33.3%	41.7%
	all employees	18	22.2%	50.0%	27.8%
management appreciates the works council	blue-collar	7	28.6%	42.9%	28.6%
	white-collar	11	27.3%	54.5%	18.2%
	all employees	18	27.8%	50.0%	22.2%

Table 6.11 Appreciation employee outcomes of employee relations arrangement at Paint Co

construct	category	N	mean	lower quart.	median	upper quart.
employee outcomes	blue-collar	7	3.41	2.93	3.57	3.71
	white-collar	10	3.79	3.50	3.82	3.93
	all employees	17	3.63	3.50	3.71	3.93
job satisfaction	blue-collar	9	3.13	3.00	3.14	3.29
	white-collar	11	3.94	3.71	3.86	4.29
	all employees	20	3.57	3.14	3.71	3.86
employment security	blue-collar	7	3.79	3.75	4.00	4.25
	white-collar	11	3.75	3.50	3.75	4.00
	all employees	18	3.76	3.75	3.88	4.00
work-related stress	blue-collar	11	3.58	3.33	3.67	4.00
	white-collar	14	3.74	3.33	4.00	4.00
	all employees	25	3.67	3.33	3.67	4.00

quart. = quartile

“If I got a better offer for the same function elsewhere, I would have to think hard about it. I want to feel happy in a job, and I do not know whether a rise in pay compensates this.”

(employee 2)

Employees, in general, appear to be less positive about the outcomes. Table 6.11 demonstrates that the overall appreciation is neutral for blue-collar workers and slightly positive for white-collar workers. This is in accordance with employees' assessments of both HR practices and the organisational climate. All are positive about their employment security and, to a slightly lesser degree, about the level of work-related stress; however, blue-collar workers clearly experience less job satisfaction than white-collar employees.

6.3.4.7 Employee relations arrangement overall

The interviewed employees' perception of the employee relations arrangement does not seem to diverge radically from the owner-manager's opinion. Based on the interviewed employees' interpretations, the employee relations arrangements can be typified as soft HRM. The interviewed employees, however, tend to stress employee-oriented CSR elements more than the owner-manager. This positive perception may be related to the clearly delineated contrast between the current owner-manager's actions and behaviours and those of his predecessor. It is suggested that this has resulted in a marked increase in employee commitment. The fact that both interviewed employees are higher ranking white-collar employees may explain why their assessment of Paint Co's employee relations arrangement appears to be more positive than that of the workforce in general whose appreciation can be generalised as being on the margin of neutral and positive. However, this does not alter the conclusion that Paint Co's employee relations arrangement appears to be HRM-based in nature.

6.3.6 Employee performance

The owner-manager believes the employee relations arrangement to result in greater employee commitment which, in turn, is perceived to result in improved employee performance.

"If 75% of the employees say 'we go for it, we do it', according to me, then you have success right in your hands. That I really think. I learned that in another company in which the majority of people did not want to go for it. [...] Here I have the idea that 75% absolutely wants to go for it."

(owner-manager)

Improved employee performance results in lower costs due to better quality, fewer errors, lower absenteeism (below 2%) and low turnover rates. The owner-manager indicates that a positive organisational climate contributes to this. The effect of commitment is perceived to be especially noticeable with regard to the sales department since the productivity of production workers, to a large extent, is determined by technology. Nonetheless, production workers demonstrate their commitment as well and make suggestions for improvements in processes.

Furthermore, with regard to production workers, commitment is evidenced in a greater willingness to work overtime.

"When you approach your people flexibly, you get this back. If I say today we need a team coming Saturday, that team will be there."

(employee 1)

Table 6.12 Employee commitment at Paint Co

construct	category	N	mean	lower quart.	median	upper quart.
employee commitment	blue-collar	12	3.50	3.50	3.75	4.00
	white-collar	15	3.90	3.50	4.00	4.00
	all employees	27	3.74	3.50	3.75	4.00

quart. = quartile

This optimistic picture of employee commitment, however, is not immediately discernible from Table 6.12. Employee commitment to the company is slightly positive, though more so for white-collar employees than for blue-collar employees. However, this situation may still represent a distinct difference with the situation under the previous management.

6.4 HORTI CO

6.4.1 Legitimacy of employees as stakeholders

In the Netherlands, Horti Co is located in two geographically different locations; office and production location are approximately 30 kilometres apart. The owner-manager operates from the office location, while the production location is directed by a separate plant manager. Horti Co's owner-manager considers employees to be the most significant stakeholder group in the company.

"The most important group [of stakeholders, jdj] are employees, of course. That is clear. Of course, that must be linked immediately to the means you provide to the workforce to carry out their tasks."

(owner-manager)

This attitude seems to be based most on his other-regarding values. He indicates that he expresses this view in relatively good pay, trusting behaviour, and with open communication with regard to the issues employees are confronted with in their jobs. The owner-manager makes no non-functional distinctions between the various employee categories.

6.4.2 Employee power

Employee power is based on the very specific characteristics of knowledge and experience required to be successful in Horti Co's market. The owner-manager contends that it is the employees' KSAs which enable the company to run the entire process from purchase through production to sales in such a manner that it leads to customer satisfaction. To acquire these KSAs, experience matters much more than formal education.

"We are active in a very small market for which very specific knowledge of and experience with product and production process are important. It takes a long time, up to a year, before new hires have settled completely in their jobs."

(owner-manager)

Consequently, employees are difficult to replace due to the extended period of time that it takes to accumulate experience. Employee power, however, is not bolstered by trade union power as unions have no presence in the company and employees are not encapsulated within a collective bargaining agreement. Employment contracts are individually negotiated. Employee power is positively affected by the presence of alternative employment opportunities in the form of jobs at transport companies in the region.

6.4.3 Horti Co's employee relations arrangement

The owner-manager states that the basis of the company's personnel policy is the offer of employment security and good pay. Management strives for an open organisational climate in which employees find it easy to approach management for whatever issue. This, combined with offering employment security, should build trust and commitment. However, the organisational climate appears to differ widely between both locations. In the office location, the organisational climate is harmonious, while in the production location, relationships between workers and management are strained due to lack of understanding on both sides. This also seems to be associated with a lack of transparency as perceived by employees, especially with regard to firm performance. The recent dismissal of a few workers due to inadequate firm performance caused unrest.

"In principle, at the end of the year, we tell about firm performance. [...] But we do that too little. [...] In this case [employee uncertainty about employment security, jdj], yes, because some went out and business didn't go well. And they are hearing nothing else in the news than that things are going badly, so it is logical that they think their position is endangered as well."

(production location manager)

The organisational climate is also negatively affected by management's desire to make working hours flexible, i.e. that production employees should work extended hours during the production season and fewer hours off-season. The growing company busyness increasingly requires employees to work overtime.

An important issue is that, due to the nature of the business, busyness is difficult to forecast at a moment that employees can provide for this in their private lives. The

individual employment contracts, however, contain no provisions regarding the item of flexibilisation which subsequently provides employees with a plausible reason to oppose the company's flexibilisation efforts.

"The moment it is four o'clock, and there is still an hour of work left, it is a fight to keep them here. [...] You have to be quite flexible, because it often is decided at four o'clock to continue. [...] So, the problem is that it is at the last moment. And this problem has slowly crept in because when we started, it didn't happen a lot. Thereafter, it became ever busier. So they had the idea: we didn't have to do this before, and now we do but we don't get more money."

(production location manager)

Consequently, employees consider the extended hours during the production season as overtime which must be paid. Employee distrust in management's intentions may play a part in this aspect. Still, the level of pay apparently is such that employees do not terminate employment because of the negative relationships with management. Management makes the attempt to improve the organisational climate and increase employee commitment by organising festive activities outside working hours. However, employees, in general, exhibit only minimal enthusiasm to participate except if it concerns activities such as a barbecue.

Horti Co does not fall under a collective bargaining agreement. Wages are mostly unilaterally determined by the company. When the production location was acquired, management itself dictated a relatively high wage for production personnel.

"I think everyone must have a good pay because that is the simplest you can do. You can show your employees in many ways that you appreciate them, but the simplest way is just by paying them well."

(owner-manager)

Wages are raised annually based on the average wage increase in Dutch collective bargaining agreements to which, occasionally, a surcharge was added. In the event of positive performance, employees receive additional pay. In 2009, however, incomes were frozen because of the previously mentioned disappointing financial performance.

Internal mobility opportunities for employees are extremely limited because of the company's small size. On the other hand, the company's small size requires functional flexibility from employees since, by necessity, they must be able to perform different tasks. To employees, experience is much more important than formal education to function well. The company has a quality certificate from the industry association that has been awarded under the condition that employees regularly participate in courses to keep up-to-date. The company encourages employees to attend these courses. However, as a consequence of the deteriorated organisational climate, employees refuse to take them. An important issue in this aspect is that employees are required to take these courses during their own time. Management is now beginning to realise that ignoring employee needs and interests in this respect works counterproductive in the sense that it negatively affects the organisational climate. Therefore, they consider offering these courses outside the specific production season which enables employees to participate in the courses during work time.

"Each year we ask the employees what they want. And they often very clearly indicate that they have no need whatsoever to take a particular course. We tried it and have done a few things but that was a laborious and pretty negative experience. [...] What they don't want is doing things in their spare time. [...] Offering these courses off-season could possibly be an option. But this has never been discussed with them."

(production location manager)

There is no formal participation due to the company's small size. Informal participation is limited to the employees' workplace and work situation. In the production location, the location manager passes orders to the foreman who subsequently discusses with the production employees how to best accomplish the required tasks and activities. Communication is limited as well. Management states it intends to address this issue. Furthermore, there is only minimal consultation of the shop floor by the location manager. The consequence is the unwillingness of employees to offer suggestions for improving products and production processes even though management believes this to be very worthwhile and, therefore, attempts to stimulate employees to come to the fore with suggestions. Employees perceive this differently: their impression is that nothing is accomplished with their suggestions. Admittedly, the location manager can imagine this as it often takes a long time to solve the issues signalled by employees. Management also signals that employees believe the information about the company's performance to be insuffi-

cient and intends to address this issue. In the office location, in contrast, the organisational climate is more harmonious; here, team consultation occurs on a regular basis.

One obligation attached to the industry association's quality mark is to conduct annual performance appraisals of production employees. On average, however, these occur only once every two years due to lack of time. The performance interviews are intended to facilitate two-way communication. Wages are one of the subjects as well as possible tensions between employees' working and private lives, for which management maintains careful watch. Temporary change or reduction in working hours is possible without consequences for the regular number of days off.

"One lad had considerable problems at home, especially financial ones. [...] And we dealt with that. I have gone to the local council with this person and have tried to find a solution. [...] He appreciated it very much and was relieved about it."

(production location manager)

The combination of medium employee power and a medium to high level of other-regarding values of the owner-manager creates an employee relations arrangement that can best be described in terms of paternalism. Most personnel practices are of an informal nature; the firm makes only minimal use of advanced HRM practices to develop employee KSAs and commitment in order to be able to fully reap the benefits of employee potential.

6.4.4 Employee perceptions

6.4.4.1 The owner-manager's other-regarding values

The interviewed employee perceives sincere interest in people on the part of the owner-manager and asserts he makes no distinction between the various employee categories. The production location manager, however, shows a more business-like approach towards employees. Additionally, he appears to communicate with employees far less easily than the owner-manager. Consequently, production location employees perceive management rather negatively.

"The talks with office staff and production employees may differ but the owner-manager does not distinguish between his people. He shows personal interest in everyone. When he comes to the office he goes to see everyone for a short chat. But the production location manager's approach is different. He never goes to his people, for example, to drink a cup of coffee. That is a pity because people do not talk only about football but also about the way they handle their work. That attitude increases the distance between management and employees."

(employee)

The perception of the owner-manager's other-regarding values as presented in Table 6.13 is more or less in accordance with the interviewed employee's observations. Blue-collar workers perceive a lower level of other-regarding values (upper medium level) in management than white-collar employees (lower positive level). The variance within each employee category is relatively minimal.

Table 6.13 Perceived other-regarding values at Horti Co NL

	N	mean	lower quartile	median	upper quartile
blue-collar	2	3.33	3.00	3.33	3.67
white-collar	3	3.93	3.78	3.78	4.22
all employees	5	3.69	3.67	3.78	3.78

6.4.4.2 Union power

Union power at Horti Co appears to be weak; none of the respondents is a union member (see Table A4.1). The large majority believes management's position toward union membership is neutral. The opinion on union influence in the company presents a mixed impression: on balance, the idea is that unions exert little to medium influence within the company. This also pertains to the measure of protection that unions offer to employees in general (see Table A4.2).

6.4.4.3 Organisational climate

The interviewed employee indicates that the relatively low perceived level of other-regarding values negatively affects organisational climate in the production location. Based on Table 6.14, blue-collar workers assess Horti Co's organisational climate to be of medium quality (upper range); this assessment is as not as negative as implied by the interviewed employee. Blue-collar workers are positive about their opportunities for using voice but have a much more negative opinion about the company's transparency. The latter point confirms the impression conveyed by management that communication in the production location could be improved.

Table 6.14 Employee assessment of Horti Co's organisational climate and its underlying aspects

construct	category	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	3	3.27	2.81	3.38	3.63
	white-collar	3	3.58	3.56	3.56	3.63
	all employees	6	3.43	3.38	3.56	3.63
free use of voice	blue-collar	3	3.83	3.50	4.00	4.00
	white-collar	3	4.17	3.83	4.17	4.50
	all employees	6	4.00	3.83	4.00	4.17
transparency	blue-collar	3	2.73	2.00	2.40	3.80
	white-collar	3	2.67	2.20	2.80	3.00
	all employees	6	2.70	2.20	2.60	3.00
relational atmosphere	blue-collar	3	3.13	2.80	3.00	3.60
	white-collar	3	3.80	3.80	3.80	3.80
	all employees	6	3.47	3.00	3.70	3.80

quart. = quartile

Exercise of voice with regard to grievances was assessed as more or less equal to the exercise of voice as a component of employee involvement and direct participation (see Table A4.3). Blue-collar workers indicate that relationships with management are of average quality. White-collar respondents are more positive about all aspects of the organisational climate than blue-collar workers, confirming the interviewed employee's observation that the organisational climate is more appreciated in the office location than in the production location.

6.4.4.4 *HR practices*

Table 6.15 depicts that Horti Co's workforce believes the company's HR armamentarium to be of average quality. Blue-collar evaluation of Horti Co's overall HR policy is more negative than white-collar judgment. Job discretion is the most positively appreciated HR practice for blue-collar as well as white-collar employees. Wages are evaluated as average by employees. With respect to blue-collar workers, this is in contrast with management's opinion that pay is relatively high for this category. The other HR practices are all assessed by blue-collar workers as being at the lower end of the medium spectrum. White-collar employees appreciate all HR practices more positively than blue-collar employees which, once again, emphasises the contrast in experienced employee relations arrangements between the office location and the production location. The difference between the two categories is most freely stated with regard to the internal labour market. This is remarkable, however, since there is no obvious explanation for this difference; career opportunities in this small company are extremely limited for both categories.

6.4.4.5 *Employee outcomes*

The blue-collar assessment of the employee outcomes of Horti Co's employee relations arrangement in Table 6.16 is positioned midway between their assessments of the organisational climate and the total of HR practices. White-collar employees, conspicuously, are more positive about the outcomes of the employee relations arrangement than about the employee relations arrangement itself.

Table 6.15 Assessment total HR practices and individual HR practices at Horti Co

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	2	2.93	2.45	2.93	3.41
	white-collar	3	3.32	3.05	3.41	3.50
	all employees	5	3.16	3.05	3.41	3.41
courses and training	blue-collar	2	2.70	2.00	2.70	3.40
	white-collar	3	3.20	3.00	3.20	3.40
	all employees	5	3.00	3.00	3.20	3.40
working conditions	blue-collar	3	2.56	2.00	2.67	3.00
	white-collar	3	3.22	2.00	3.67	4.00
	all employees	6	2.89	2.00	2.83	3.67
job discretion	blue-collar	3	3.33	2.25	3.75	4.00
	white-collar	3	3.67	3.00	4.00	4.00
	all employees	6	3.50	3.00	3.88	4.00
work-life balance	blue-collar	2	2.67	2.00	2.67	3.33
	white-collar	3	3.00	3.00	3.00	3.00
	all employees	5	2.87	3.00	3.00	3.00
pay	blue-collar	3	3.08	2.75	3.25	3.25
	white-collar	3	3.25	2.75	3.50	3.50
	all employees	6	3.17	2.75	3.25	3.50
internal labour market	blue-collar	3	2.56	2.00	2.00	3.67
	white-collar	3	3.56	3.33	3.33	4.00
	all employees	6	3.06	2.00	3.33	3.67

quart. = quartile

Table 6.16 Employee outcomes at Horti Co

construct	category	N	mean	lower quart.	median	upper quart.
employee out-comes	blue-collar	3	3.18	2.77	3.08	3.69
	white-collar	3	3.77	3.69	3.77	3.85
	all employees	6	3.47	3.08	3.69	3.77
job satisfaction	blue-collar	3	3.00	2.50	3.17	3.33
	white-collar	3	3.78	3.33	3.83	4.17
	all employees	6	3.39	3.17	3.33	3.83
employment security	blue-collar	3	3.25	2.25	3.50	4.00
	white-collar	3	4.00	3.75	4.00	4.25
	all employees	6	3.63	3.50	3.88	4.00
work-related stress	blue-collar	3	3.44	2.33	4.00	4.00
	white-collar	3	3.44	2.67	3.67	4.00
	all employees	6	3.44	2.67	3.83	4.00

quart. = quartile

Blue-collar employees indicate the minimal level of work-related stress to be the most favourable outcome – which appears to be in contrast with management pressure to work extended hours during the high productivity season – while, for white-collar employees, this pertains to employment security.

The interviewed employee indicates that production workers appreciate their compensation but that their feeling of employment security is undermined by a recent dismissal due to disappointing financial company performance as a consequence of the economic crisis.

“Last year, the production location manager dismissed a few employees because there was less work. But, in fact, you need them now again. It is very specific work and employees are only sufficiently settled in after an entire season. If you have new hires all the time, this makes work difficult.”

(employee)

This is confirmed by blue-collar respondents to the extent that they estimate their employment security less favourably than white-collar respondents.

6.4.4.6 Employee relations arrangement overall

Based on employee perceptions, the conclusions regarding the nature of Horti Co's employee relations arrangement arrived at in Section 6.4.3 should be modified to some extent. Respondents at the office location perceive the owner-manager's level of other-regarding values to be high. They assess the organisational climate as just above average and believe HR practices to be at the higher end of the average spectrum. This positions the office location arrangement as HRM-based. The respondents of the production location perceive management's level of other-regarding values as upper-spectrum average, assess the organisational climate and the total of HR practices as average and perceive their outcomes to be average as well. This indicates that the production location's employee relations arrangement has a paternalistic character bordering on HRM-based.

6.4.5 Employee performance

Management states employee commitment is important, for example, to elicit initiative taking by employees. In turn, initiative taking by employees saves time for management and subsequently affords them the opportunity to focus on the company's central issues. This is confirmed by the interviewed employee.

"That the owner-manager shows interest in me results in me being prepared to go the extra mile. It also means that I try to solve the problems that I encounter."

(employee)

However, the situation is less favourable in the production location. The interviewed employee states that employees' minimal appreciation of the organisational climate and of the other-regarding values of the production location manager results in low employee commitment in the production location. Consequently, there is little inclination to cooperate and reason with management.

“Because the owner-manager shows interest in you, you feel part of the company. But the employees in [the production location, jdj] feel very little committed to the company because management hardly consults the staff. [...] Because there is so little discussion over there, unrest is created. Low-level commitment also results in people not wanting to take courses to develop themselves.”

(employee)

This attitude is illustrated in Table 6.17; blue-collar respondents assess their commitment as being at the lower end of the medium spectrum while white-collar respondents indicate their commitment to be high. Turnover and absenteeism are very low, also in the production location, despite the signalled lack of commitment of employees.

Table 6.17 Employee commitment at Horti Co

construct	category	N	mean	lower quart.	median	upper quart.
employee commitment	blue-collar	3	2.83	2.50	2.50	3.50
	white-collar	3	4.00	3.00	4.25	4.75
	all employees	6	3.42	2.50	3.25	4.25

quart. = quartile

“We have a very low turnover rate. [...] In general, absenteeism is minimal, I think. The lads really work hard and they actually are never absent. A sickness once in a while, but that is very minimal.”

(production location manager)

The above seems to imply that no direct relationship can be established between employee performance with respect to productivity and costs, on the one hand, and employee appreciation of the outcomes of the employee relations arrangement, on the other. However, the low level of employee commitment does appear to restrict the company in its efforts to achieve higher levels of customer orientation and temporal flexibility.

6.5 PACKING CO

6.5.1 Legitimacy of employees as stakeholders

The owner-manager views employees as the company's most important stakeholder group.

"The most important interested party in Packing Co – I state this perhaps a bit pretentious – but that I call personnel. [...] Packing Co is a trading company and, thus, personnel is our most important asset and, consequently, also our most important stakeholder. [...] With their knowledge our people see to it that Packing Co advances."

(owner-manager)

The workforce is considered to be the company's capital since it is employees' KSAs that enable the firm to prosper. The owner-manager's basic value in dealing with the company's workforce is that people can only function well if they feel positive. This also implies that mutual trust is an important basis of the employee relations arrangement. Consequently, the organisational climate is designed to provide a working atmosphere in which employees feel at ease and ensures that they continue their employment with Packing Co.

Employees must enjoy their work. This approach is fundamental to the owner-manager both with regard to home country and host country employees. Accordingly, the owner-manager does not make non-functional distinctions between the various employee categories. This is also evident with the profit-sharing arrangement at Packing Co (see Section 6.5.3).

Packing Co bases its employment relations regime on employees' needs and interests. Workers and their families are dependent upon the company for their livelihood, and that creates obligations towards them from the employer.

"We have 160 people working for us and those 160 people have families they have to take care of. We continuously free up time for our people so that they feel comfortable and enjoy going to work because, of course, a lot depends on that. We steer very much on self-actualisation of people, and we base this on the needs of people themselves."

(owner-manager)

This indicates that the owner-manager's opinion about employees as stakeholders, to a great extent, is established on his other-regarding values which are reflected in the design of the company's personnel policy.

6.5.2 Employee power

It is the belief of the owner-manager that employees retain power because of their KSAs; he perceives KSAs of employees to be crucial for maintaining and improving firm performance. It is employees who perform the business processes in such a manner that customers are satisfied with the company's products and service.

"We say 'we cannot do anything without our personnel'. [...] Employees provide with their knowledge for Packing Co's advancement, so that turns them into our most important asset."

(owner-manager)

Within the company, trade union influence is negligible due to low membership. Employee power based on KSAs is, to a certain degree, supported by the collective bargaining agreement covering the company. However, this collective bargaining agreement is only minimally applicable since, over the course of time, Packing Co has shifted out of the sector concerned, i.e., the textiles wholesale sector. Most terms of employment at Packing Co are much better than those specified in the collective bargaining agreement because the jobs at Packing Co generally demand much higher qualified staff than in the sector. At the moment, there is some discussion whether a works council should be incorporated since the company's workforce in the parent company establishment numbers just a bit under 50 employees, the boundary above which a works council is mandatory.

6.5.3 Packing Co's employee relations arrangement

The owner-manager strives for an organisational climate in which employees feel secure. One of the elements defining security is employment security, and the owner-manager's explicit intention is to offer employees lifetime employment.

“Employees stay long with Packing Co. It is getting more difficult to have a person 40 years in your employment, but that is not our fault. People start their working lives later and then it gets tougher to reach 40 years of employment.”

(owner-manager)

Another element of security, according to the company, is a relational atmosphere in which people can feel secure.

“In the first place, I want everyone each day to enjoy to go to work [...]. Looking from the employee perspective, I want to be a family business, that warmth, that feeling we want to radiate and that we also try to create.”

(owner-manager)

A third crucial element of security is free use of voice. The owner-manager states it to be his firm belief that people can only fully deploy their talents if they feel free to do so.

“I think it important that my people are free in their head. That’s why they can think freer and feel more at ease. And that reflects on their close environment.”

(owner-manager)

Packing Co has recently begun to professionalise its personnel management due to the increasing size of the company and the increasing complexity of labour legislation and regulation. To accomplish this, an external HRM advisor has been hired. However, the owner-manager is ambiguous about professionalization and formalisation since he fears that bureaucratisation and inflexibility may be a consequence which may occur at the expense of the relational aspect of the company’s organisational climate.

“With this professionalization, we want to create transparency for employees. It is very important that they know where they stand, otherwise, you constantly get questions about everything. As a company, we are in that in-between stage; sometimes you have to do things like a big company, and sometimes you have to preserve the flexibility of a small company. And that is what we try to do.”

(owner-manager)

In the framework of professionalization, a new stratum of business unit managers has been created who also perform a component of the HRM function for their subordinates. This concerns performance appraisals, advice on changes in pay, and discussion of issues faced by employees.

The owner-manager believes that the primary terms of employment that the company offers are comparable to the market. The construction of the wage structure is one of the examples of professionalization. Where wage development was once opaque with various arrangements for different employees, it is now transparent for everyone. The various jobs are classified into categories. Pay raises are dependent upon performance. Normal performance leads to one increment, excellent performance to two while, in the event of insufficient performance, no increment is granted. Though the company employs no bonus system, employees occasionally receive a financial reward for extraordinary performance.

Training is a spearhead for Packing Co.¹ The owner-manager places significant emphasis on employees' self-actualisation. He encourages taking courses and training but expressly leaves the initiative to employees. The association between training and job is subordinate to the employee's concept of improved functioning through such training. In that case, training is facilitated in time and money. Presently, the company is in the process of establishing a schooling plan in which training preferences of employees are matched with training suggestions of their line managers.

"Packing Co thinks schooling to be important and does not want to put the slightest obstacle to do so. I applaud that very much but one could be a bit more directing in this."

(HRM advisor)

There is no overall systematic policy to increase employability of employees due to the level of specialisation of most functions. Increasing employability through job rotation, however, does occur in the warehouse since tasks are more basic in the functions concerned. The approach towards training is congruent with the approach to the internal labour market. Management's objective, in this aspect, is to fill vacancies for higher-level jobs from within.

¹ Personnel Handbook Packing Co

“If we see that someone develops himself within Packing Co, then it would be good if he could also improve his position. This, of course, does not always mean that this succeeds because, after all, we are not a big company. [...] This can come from both sides. If an employee indicates to aspire another position within the company, then we are open to that if we see the potential as well.”

(owner-manager)

Only if the required capabilities seem to be deficient within the company are external candidates sought. However, the HRM advisor indicates that this policy is not explicitly formulated.

In congruence with the employee-friendly organisational climate, communication is very open and occurs both formally and informally. Ten times per year, there are information and consultation meetings for the entire workforce where firm performance in the last period is expounded, and the plans for the coming period are announced. Employees can ask questions on any issue during these meetings and can exercise influence on company policy by making suggestions.

“Here, we tell, for example, about the quarterly figures and indicate on which plans we are working. Subsequently, everyone has the opportunity to ask questions on all sorts of subjects. [...] Everyone feels completely free to make remarks.”

(owner-manager)

Participation also materialises in the form of team consultation. Moreover, making suggestions is encouraged and management informs people what follow-up they intend to give to their suggestions. Still, the HRM advisor suggests that this does not occur systematically simply because not all line managers have been sufficiently trained for having discussions and interviews with employees.

As stated in Section 6.5.2, Packing Co has no works council. Financial participation, however, does exist in the form of profit distribution.

“Employees receive a good salary here and, if we make a profit, part of it we share with each other.”

(owner-manager)

Five percent of the profit is distributed across the company's total workforce abroad and at home. Profit distribution is dependent on total profit being 1.5% of turnover, minimally. Employees receive a fixed amount that is the same for everyone. It is believed that this expresses that each person, in their individual manner, contributes to the company's prosperity.

Professionalization is most advanced in the procedure regarding performance appraisal. Performance and assessment interviews are decoupled from one another. Both are conducted annually. Performance interviews are characterised by two-way communication while self-actualisation is a significant subject. There is no formal grievance procedure. Plaintiffs should discuss issues with their line manager. If this does not result in a satisfactory solution of the problem, the employee can turn to the HRM advisor who functions informally as a confidential advisor. The owner-manager is not willing to establish a formal procedure because this would give him the feeling of having failed in his intentions.

'We do not really have a formal procedure. If I suggested that, I am sure the owner-manager would say 'if we institute this, then I have done something not right'. He just wants to look people in the eyes and stimulate that employees utter complaints if they have one.'

(HRM advisor)

However, the lack of a formal procedure creates non-transparency for employees and weakens their position. This is even more important since no independent external party is involved in addressing grievances.

The company pays attention to employees' work-life balance in the sense that, when an employee faces a private situation which prevents attendance during working hours, management generously addresses this beyond any legal obligations and beyond arrangements in the collective bargaining agreement. When applicable in such cases, the person is also permitted to work from home. Normally, the owner-manager does not allow this out of fear that commitment will suffer.

"Actually, I oppose working at home, because I want everybody to be here since that communicates a lot easier, [...] But if a child is ill or there is something else, then we are the first to say 'just stay home'. We also offer the facilities that people can work at home."

(owner-manager)

In summary, due to the high level of other-regarding values and to perceived strong employee power, the employee relations arrangement can best be characterised in terms of employee-oriented CSR with some overtones of paternalism, for example, as witnessed by the company's position toward working at home. The owner-manager's intense level of other-regarding values is evidenced when considering employee needs and interests in their own right. The moral conviction that addressing employees' needs and interests as an end in itself will also result in greater firm prosperity seems to support the firm's overall position towards its workforce. Perceived strong employee power is expressed in the company's opinion that employees are the primary assets of the firm because of their KSAs. If firm prosperity is to develop favourably, then the firm must ensure that employees can further develop their KSAs and that they feel at ease within the company.

6.5.4 Employee perceptions

6.5.4.1 *The owner-manager's other-regarding values*

The owner-manager's other-regarding values are acknowledged by the interviewed employees in the parent company. They explicitly state that the owner-manager behaves in a just and social way. Furthermore, they concur in their perception that employees' needs and interests in their own right are one of the elements underlying the company's personnel policies.

"Packing Co is a firm that says 'We do our business honestly, and we do that in every aspect. Towards our own employees but also towards our customers. [...] There is habitual attention for employees. [...] Call it norms, call it values, no idea. But I indeed think it is sincere attention.'"

(employee 3)

In Table 6.18, this positive verdict is confirmed by Packing Co's respondents to the questionnaire. They rate the owner-manager's level of other-regarding values as high.

Table 6.18 Perceived other-regarding values Packing Co

	N	mean	lower quartile	median	upper quartile
blue-collar	2	4.67	4.44	4.67	4.89
white-collar	18	4.10	3.89	4.00	4.22
all employees	20	4.16	3.89	4.00	4.44

6.5.4.2 Union power

Though only one respondent is a trade-union member, employees generally perceive management's position towards union membership as neutral. Respondents perceive union influence on the company to be low to medium, and the majority consider unions to be important nor unimportant for the protection of employees' rights (see Tables A5.1 and A5.2).

6.5.4.3 Organisational climate

The interviewed employees experience a secure and enjoyable organisational climate in which employees experience significant discretion regarding their tasks and activities.

“Through the style of management you have here a very large freedom of action. That makes the job very pleasant and that also increases your feeling of responsibility.”

(employee 2)

This positive judgment is also indicative from Table 6.19. Though all aspects of the organisational climate are highly appreciated, this especially pertains to the relationship with management.

Table 6.19 Employee assessment of the organisational climate and its underlying aspects at Packing Co

construct	category	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	2	4.06	3.88	4.06	4.25
	white-collar	17	4.18	3.94	4.13	4.38
	all employees	19	4.16	3.88	4.13	4.38
free use of voice	blue-collar	2	4.00	3.40	4.00	4.60
	white-collar	18	3.93	3.60	4.00	4.20
	all employees	20	3.94	3.50	4.00	4.20
transparency	blue-collar	2	3.90	3.80	3.90	4.00
	white-collar	18	4.06	3.80	4.00	4.40
	all employees	20	4.04	3.80	4.00	4.20
relational atmosphere	blue-collar	2	4.25	4.17	4.25	4.33
	white-collar	19	4.44	4.00	4.50	5.00
	all employees	21	4.42	4.00	4.33	4.83

quart. = quartile

Both interviewed employees and respondents are quite satisfied with the way voice and communication are arranged at Packing Co. The interviewed employees assert that they possess a feeling of being able to influence at least their department's policy. Everyone receives a copy of the company's long-term strategic plan while the yearly budgets also are accessible to every employee. Making suggestions for improvement is greatly appreciated by management.

"I would say, it is appreciated less if you don't think in terms of improvement than if you do. That applies not only to the higher positions but also to the warehouse employees."

(employee 3)

Employees, in majority, believe that the company acts quite reasonably towards colleagues who use voice to express grievances or disagreement with management decisions. Half of the respondents believe that outside mediation is possible in the event of disagreement (see Table A5.3). They also refer to the possibility to include the external HRM advisor. This is also hinted at by one of the interviewed employees:

"If you disagree with management, you first raise the issue with your supervisor. If you cannot work out a solution, you can go, I think, to the HRM advisor."

(employee 3)

6.5.4.4 HR practices

With regard to primary employment terms, employees agree with the owner-manager that these are comparable to the market. In other respects, they believe that the company reaches beyond the market or contract. For example, employees perceive the training policy to be very generous.

"They will not say you have to do such and such a course. The classic example is a course in making bobbin lace; if that makes you feel better, you should by all means take a course in making bobbin lace, they always say here."

(employee 3)

The interviewed employees agree that systematic internal selection procedures, as yet, are not overt. Internal vacancies are not always communicated clearly and timely and, at times, a vacancy is already placed externally before it is announced within the company. However, there is every opportunity to state your interest in career growth which is subsequently is addressed by management.

"As far as I know, it is not customary within Packing Co that an internal application procedure is set up in case of an internal vacancy."

(employee 1)

The manner in which profit distribution is managed is appreciated positively by the interviewed employees.

“There is profit-sharing for employees. The amount is equal for everyone from forklift driver to board member; everyone receives the same amount. [...] I think this to be positive. Everyone is important for the firm’s performance.”

(employee 1)

Table 6.20 represents respondents’ assessments of the total of HR practices as being positive, though appreciation is lower than of the organisational climate. Conspicuously, the internal labour market and pay are judged much more positively by the respondent blue-collar employees than by white-collar employees. However, due to the low response rate among blue-collar employees, it cannot be established to what extent this applies to all blue-collar employees. Equally conspicuous is the relatively low appreciation of work-life balance policies; the only blue-collar respondent negatively assesses this aspect while white-collar employees’ appreciation is average. It is possible that the company demonstrates little flexibility to structurally enable employees to adapt their working times and the place where they work to their private needs. This stands in sharp contrast to the opinion of the interviewed employees that the company possesses a generous approach towards colleagues who temporarily experience problems in balancing their work and private lives.

“Management is considerate when you are needed more at home. Much can be arranged by mutual agreement. Suppose you’re needed at home to look after the children when your partner is ill, then you have the opportunity to do this without being cut back on holidays. In such cases you are also allowed to work at home.”

(employee 3)

6.5.4.5 Employee outcomes

The interviewed employees state considerable satisfaction with their work and their working conditions. They experience a significant measure of job discretion. Otherwise stated, employees positively appreciate the structure in which personnel policy has been cast at Packing Co.

Table 6.20 Employee assessment total of HR practices and individual HR practices at Packing Co

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	1	3.77	3.77	3.77	3.77
	white-collar	18	3.85	3.55	3.80	4.14
	all employees	19	3.84	3.55	3.77	4.14
courses and training	blue-collar	2	3.80	3.40	3.80	4.20
	white-collar	19	4.15	3.80	4.20	4.40
	all employees	21	4.11	3.80	4.20	4.40
working conditions	blue-collar	2	4.50	4.00	4.50	5.00
	white-collar	18	4.24	4.00	4.00	5.00
	all employees	20	4.27	4.00	4.00	5.00
job discretion	blue-collar	2	4.00	3.50	4.00	4.50
	white-collar	19	3.96	3.75	3.75	4.00
	all employees	21	3.96	3.75	3.75	4.00
work-life balance	blue-collar	1	2.33	2.33	2.33	2.33
	white-collar	18	3.13	2.67	3.17	3.33
	all employees	19	3.09	2.67	3.00	3.33
pay	blue-collar	2	4.63	4.25	4.63	5.00
	white-collar	19	3.70	3.25	3.75	4.00
	all employees	21	3.79	3.50	3.75	4.00
internal labour market	blue-collar	2	4.33	4.00	4.33	4.67
	white-collar	18	3.67	3.33	3.67	4.00
	all employees	20	3.73	3.50	3.67	4.00

quart. = quartile

"I find my job very pleasant, [...] It is not only the pay that makes you like your job, there are other things as well: your colleagues, your working environment."

(employee 3)

The relational working atmosphere is indicated as being excellent. This implies that they only think of leaving the company if compensation in another company is considerably greater.

Table 6.21 Appreciation employee outcomes of employee relations arrangement at Packing Co

construct	Category	N	mean	lower quart.	median	upper quart.
employee out-comes	blue-collar	2	4.42	4.31	4.42	4.54
	white-collar	18	4.09	3.77	4.08	4.38
	all employees	20	4.13	3.81	4.08	4.42
job satisfaction	blue-collar	2	4.67	4.33	4.67	5.00
	white-collar	18	4.21	3.83	4.17	4.67
	all employees	20	4.26	3.83	4.25	4.67
employment security	blue-collar	2	4.50	4.25	4.50	4.75
	white-collar	19	4.04	3.75	4.00	4.50
	all employees	21	4.08	3.75	4.00	4.50
work-related stress	blue-collar	2	3.83	3.33	3.83	4.33
	white-collar	19	3.88	3.67	4.00	4.00
	all employees	21	3.87	3.67	4.00	4.00

quart. = quartile

As evidenced in Table 6.21, the respondents of the questionnaire concur with this positive assessment. They especially value job satisfaction and employment security. Only the level of work-related stress is experienced slightly less positively.

6.4.5.6 Employee relations arrangement overall

In view of the perceived high level of other-regarding values of the owner-manager, the high rating of the organisational climate, and the employee outcomes of Packing Co's employee relations arrangement, there appears to be no reason for adapting the conclusion of Section 6.5.3 that Packing Co's employee relations arrangement can be characterised as employee-oriented CSR. However, also at Packing Co, HR practices overall are valued less than the firm's organisational climate. Apparently, a positive organisational climate appears to be more significant for employees than the exact structure and execution of HR policies and practices.

6.5.5 Employee performance

The favourable organisational climate seems to be reflected in very low turnover and absenteeism rates. The owner-manager perceives the organisational climate as positively contributing to employee performance and productivity.

"Of course, productivity is difficult to measure. I have the idea that, on average, it is high. I think our personnel policy contributes to that. If you feel good and you have an enjoyable work environment, you work easier than when this is not the case."

(owner-manager)

Employees, as well, indicate they believe it is likely that their commitment and loyalty result in additional added value to the company in the form of higher productivity and of a proactive, problem-solving attitude.

"You offer more added value if your perception is better. The management style in a company is reflected in employees' efforts, their feeling of commitment and the importance of their jobs."

(employee 2)

The remarks about commitment by the interviewed employees are supported by the respondents' reported high commitment as is evidenced in Table 6.22. Employee commitment appears to be positively correlated with their perception of the owner-manager's other-regarding values and with the firm's organisational climate.

Table 6.22 Employee commitment at Packing Co

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	2	4.38	3.75	4.38	5.00
	white-collar	19	4.08	3.50	4.00	4.75
	all employees	21	4.11	3.75	4.00	4.75

quart. = quartile

Commitment entails a willingness to do more than what is required to do for the company, making it probable that high commitment positively affects employee performance.

6.6 RUBBER CO

6.6.1 Legitimacy of employees as stakeholders

The owner-manager asserts feeling morally responsible for the company's employees, including subsidiary employees. They are the most important stakeholders second only to debt providers.

"I think the first group consists of the financial institutions. If you borrow a lot of money, we think that to be a first responsibility. Second stakeholder is [...] the workforce. I think you have a certain responsibility [...] towards your personnel. That's a very important one, because it is not only directly your 150 employees but there are, of course, also their families."

(owner-manager)

Employees are the most significant assets of the organisation.¹ This implies that the owner-manager perceives employees, based on his other-regarding values, as legitimate stakeholders in the firm. He distinguishes various employee categories based on the nature of their contribution to the company's prosperity but emphasises the importance of each group's input. He does not make non-functional distinctions between the various groups.

¹ Personnel Handbook Rubber Co

"So I think, on the whole, that all disciplines in the organisation are very important from production to eventually R&D, sales, etc."

(owner-manager)

The responsibility felt towards employees makes employment security an important issue. Some years ago, one of the production departments incurring loss in the Netherlands was transferred to the subsidiary in Poland, and all personnel in that department was subsequently disbursed across the remaining production departments. Employees were consulted about their preferences in this respect and, if possible, these preferences were met. This included an offer for additional training if it was deemed necessary. Certain employees initially had mixed feelings due to the uncertainty created by not knowing what the new job would entail.

"If people don't want to accept their new job, they must find a new one elsewhere; in that case, company interest is paramount over individual interest."

(owner-manager)

Consequently, in order to be able to maintain employment security, management deems development of employees' employability to be essential. Therefore, an explicit employability policy has been established in the company involving job rotation and additional training.

6.6.2 Employee power

In the opinion of Rubber Co's management, employees' KSAs and motivation are an important source of competitive advantage. As the personnel handbook states: "Employees are the organisation's most important capital. Through their performance, they contribute to the realisation of the organisation's and department's objectives. To that end, they need the right knowledge and skills ..."

The high level of firm-specific skills creates difficulty when replacing employees, including production workers, in the short term. This aspect of employee power is supported by a relatively high union membership between 20% and 30% of the workforce, in the owner-manager's estimate – from the 27 respondents, seven

indicated to be a union member (see Table A6.1) which infers 26% – the presence of union members in the works council, and the coverage by a collective bargaining agreement. The owner-manager asserts to have no issues with union presence in his company.

“One of the works council members is in the executive committee of the union. Furthermore, last month, I had, for the first time in 25 years, a discussion with a union representative. He said ‘you have an open culture, for if there had happened odd things, then the union would have heard about it’. I have agreed with him that we will, once a year, sit together for an informative talk.”

(owner-manager)

6.6.3 Rubber Co’s employee relations arrangement

The structure of Rubber Co’s employee relations arrangement experienced extensive changes after 2006 following a critical report by an external consulting agency stating that health and safety conditions were below the industry average at Rubber Co¹. Furthermore, employees were dissatisfied with their workplace situation and with communication by management on firm performance. In response, it was decided to change the prevailing top-down approach by an approach which would be more bottom-up.

“Ten years ago, we had quite a different management style. As the board of directors, you determined the policy, and now your policy is determined by many structures. These can also consist of your workforce, we have a bottom-up view, so listen carefully to your people and communicate in an open way. That is a very gratifying job, to listen your employees, to see which improvements we can create with one another.”

(owner-manager)

¹ External consultancy report Rubber Co, 2006.

Changes entailed replacement of the current line managers with new line management exhibiting a more participatory attitude and behaviour towards employees. Additionally, job discretion was significantly increased not only by giving employees more influence about how to perform their daily tasks but also by consulting employees in the event of investments in the workplace. The influence of production employees on how to perform their tasks continues to be limited due to the rigid nature of their activities.

During that same period, production was reorganised. In the previous situation, the entire production department was managed by one production manager. Now, production has been divided and managed by teams that each have a team manager. This is more in accordance with the owner-manager's ideal type of an employee relations arrangement.

"I think the ideal picture would be: self-managing teams. That they can function autonomously, with their own personnel policy, staffing, you name it, that I could call the ideal picture. It does depend a bit on the company, for it is not always possible. But I think, this would increase responsibility and commitment a lot."

(owner-manager)

Furthermore, an HRM officer has been hired to professionalise and formalise personnel policies and HR practices in consultation with top management.

Management also paid considerable attention to the organisational climate, for example, by organising company outings. However, the primary issue regarding the organisational climate concerns the free use of voice. Management claims to believe this is very important and, thus, actively strives for an open relational and communicative atmosphere within the company.

"In the past, we had made some mistakes. At that time, the production manager decided on his own about certain investments. Now, we involve the production employees when we are going to invest in new lathes and grinders. These are learning processes; all the time you want to improve and then you need the advice of the persons who will have to work with that machinery."

(owner-manager)

They attempt to achieve this through two-way communication which is not differentiated between production employees, on the one hand, and administrative and R&D staff on the other. The interviewed owner-manager has an open-door policy. Firm performance is communicated a few times per year in team consultation meetings. Furthermore, the minutes of works council meetings are remitted by mail to all employees.

However, during the same period that these changes were initiated, additional changes were introduced affecting the workforce, particularly production employees, and the organisational climate. Team work with corresponding line management was introduced. In the framework of the professionalization of the organisation, performance appraisals were introduced.

“We [management and works council, jdj] have tried to explain in the organisation that performance appraisals were intended to improve individual performance and not so much to judge individuals. The first assessment interviews were quite hard, I honestly must admit. People did not experience it from the perspective of an improvement process, but more as a real judgement process.”

(owner-manager)

In addition to that, the existing day shift system for production employees was replaced by a three-shift system. These measures were taken in consultation with and with the backing of the works council. The switch to a three-shift system was deemed necessary to maintain a competitive cost level and, thus, to ensure survival of the company. The introduction of the three-shift system was met with substantial resistance from the employees involved since their working times were now variable and regularly at unpleasant times of the day. Furthermore, physically and mentally, shift work is more difficult to maintain than regular daytime work. Regardless of the positive effects of new, more employee-friendly policies and practices, the introduction of the three-shift system largely voided their validity. This was expressed in a marked increase in the absenteeism rate. This may be seen as a form of exit since the employees involved did not succeed in having their grievances heard effectively through voice which negatively affects the organisational climate.

“What is a bit the culture here, [...], is that the power instrument of the employee is to report themselves ill. [...] if they do not agree with something, they report themselves ill very easily.”

(HRM officer)

The three-shift affair proved cataclysmic for formal participation. The works council members resigned and, for a few years, it was not possible to establish a new works council because of the lack of candidates. Only since 2010 was a new works council elected into office. The owner-manager believes work councils to be of great importance, though more so for large companies than for medium-sized firms like Rubber Co due to the minimal number of potentially good members. Internal meetings of the works council occur monthly while meetings with management are on a bimonthly basis.

The owner-manager, however, views the three-shift system as an essential element of his policy to guarantee employees with a permanent contract of maximum employment security. Another element of this policy is to replace traditional, low value-added productive activities by innovative, high value-added activities.

"I always say, our objective is company survival. If we do not change now, your position will maybe be gone in two or three years' time because then we will be bankrupt."

(owner-manager)

In the framework of this policy, one department was transferred to the subsidiary in Poland and another department was sold to an external party. It was made perfectly clear that all employees could be reinstated in the fast-growing, more innovative departments. Even the economic crisis of 2009 did not result in compulsory redundancies despite a considerable decrease in sales.

This was made feasible by the availability of a shell of temporary labour replacing those fixed-term contracts that were not renewed as a consequence of the crisis. Another element of the firm's employment security policy for employees with permanent contracts consisted of increasing their employability through job rotation with complementary on-the-job training. This afforded an opportunity to transfer employees from departments with decreasing busyness to departments in which busyness increased. An additional advantage for both company and employee is the acquired greater insight into the production process in its entirety.

Compensation to production employees is above the market and collective bargaining agreement levels. In the existing wage structure, pay is not related to performance. The company is experimenting with an individual bonus system, but this is not, currently, an unqualified success. Management believes that too many

people are awarded a bonus which results in reduction of motivation for the ones who do not receive a bonus.

“We use the bonus system now for two years as a test. [...] But the proposal is now to abolish it. Our goal was to give employees who do their best an additional reward and to trigger employees to do their best even more. Now, 70% gets a bonus and that is not our goal, because now it is almost something natural to get the bonus and everyone who does not receive a bonus is disappointed.”

(HRM officer)

With regard to filling vacancies for positions above entry level, it is standard policy to fill these, whenever possible, with internal candidates for which all new team leaders have been recruited. This policy meets certain employees' desires for career opportunities within the company.

“I always publish vacancies, so there is openness in that respect. For other levels than the board of management, we first look internally. This year, for example, two production employees have been promoted to a higher function. One has become planner. The other was first promoted to team leader and then to product engineer.”

(owner-manager)

As mentioned above, the company utilises a formal performance appraisal system. Employees must have a separate performance and assessment interview each year with their line manager. In the beginning of the year, both parties formulate their preferences and make agreements. At the end of the year, the assessment interview occurs in which, amongst other things, it is established whether the employee qualifies for a bonus based on fixed criteria. In contrast to performance appraisals, there is no formally recorded grievance procedure. In the event of conflicts, the line manager, occasionally with the assistance of the HRM officer, must mediate. If an employee has a conflict with the line manager, then the HRM officer attempts to mediate. This informal arrangement does not meet employees' needs for evaluation of their grievances by impartial and independent persons.

Rubber Co employs explicit policies consisting of prevention policies and coaching initiatives in an attempt to minimise absenteeism due to illness. Under this heading, a healthy-ageing policy can also be positioned comprising the

additional days off based on the collective bargaining agreement but expanded with age awareness policies in which employees' career phases, work-life balance and physical shape are taken into consideration.

"We carry through improvements in the workplace, we have a prevention staff member, [...], so we do a lot about the work environment."

(owner-manager)

Rubber Co's employee relations arrangement appears to be characterised by strong employee power and a medium level of the owner-managers' other-regarding values. Employee power is strong because employee KSAs are deemed critical to firm performance and because employee power is bolstered through the works council and union power in the form of a collective bargaining agreement. Relatively many advanced HR practices are applied at Rubber Co to elicit maximum employee effort as well as utilisation and development of KSAs. This suggests that the employee relations arrangement can be characterised as soft HRM.

6.6.4 Employee perceptions

6.6.4.1 The owner-managers' other-regarding values

According to the interviewed employees, other-regarding values contribute to management's behaviour and actions.

"The starting point is, behind every person here are at least three people, and you have to think of them as well."

(employee 1)

Self-regarding motives and other-regarding motives are also collectively perceived to be evident.

"So that is also part of the vision: be good to your people, then you have yourself also advantage in the future."

(employee 1)

Table 6.23 Perceived other-regarding values owner-managers Rubber Co

	N	mean	lower quartile	median	upper quartile
blue-collar	13	3.27	2.89	3.44	3.78
white-collar	10	3.66	3.56	3.67	4.00
all employees	23	3.44	3.22	3.56	3.78

As is apparent in Table 6.23, respondents seem to perceive this combination of other- and self-regarding values as positive; overall, they assess owner-managers' level of other-regarding values in between average and high. White-collar employees, however, are more positive than blue-collar employees.

6.6.4.2 Union power

The large majority of respondents perceives a neutral or positive position of management towards union membership while a minority of the production workers perceive a negative position of management in that respect. The majority of respondents assesses union influence within the company to be minimal to average. Nonetheless, most respondents – white-collar employees more than blue-collar employees – believe unions are important for the protection of employee rights in general (see Table A6.2).

6.6.4.3 Organisational climate

The interviewed employees state that the company maintains compliance with the statement in the personnel handbook that employees are the most important assets in the sense that development is prioritised. At all levels are opportunities for participating in courses which are fully facilitated. Their opinion on participation is equally favourable. Both indicate that production employees are intent on improving processes.

“In the production departments, too, people think cooperatively and do not accept unthinkingly orders how to do things and at times ask

'can't we do it better this way?', so, yes, people think in terms of improvement.”

(employee 2)

However, not all employees openly communicate equally.

“You have also colleagues who call but do not go to management. [...] Perhaps this is fear of supervisors, I don't know exactly. I think it very much depends on the particular person.”

(employee 2)

Table 6.24 Employee assessment organisational climate at Rubber Co

construct	category	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	13	3.03	2.56	3.13	3.56
	white-collar	10	3.48	3.13	3.41	4.06
	all employees	23	3.23	2.94	3.25	3.63
free use of voice	blue-collar	14	2.97	2.40	2.90	3.80
	white-collar	11	3.24	3.00	3.00	3.80
	all employees	25	3.09	2.60	2.60	3.80
transparency	blue-collar	14	2.73	2.00	3.00	3.40
	white-collar	11	3.00	2.40	3.20	3.80
	all employees	25	2.85	2.20	3.00	3.60
relational atmosphere	blue-collar	15	3.32	2.83	3.33	3.83
	white-collar	11	3.97	3.67	4.00	4.33
	all employees	26	3.60	3.33	3.67	4.00

quart. = quartile

The outcomes in Table 6.24 suggest that the perception of respondents of opportunities to use voice and especially of transparency is less positive than the perception of the interviewed employees. The relatively low assessment of transparency is remarkable considering management's statement that the reports of the works council meetings are sent to each individual employee, though this may

be explained by the fact that the works council has only recently been reinstated after not having functioned for a number of years. The relationship between management and employees is perceived to be positive by white-collar employees and average to good by blue-collar. All in all, respondents assess the organisational climate at Rubber Co to be average (blue-collar) or on the margin of good (white-collar).

6.6.4.4 Works council

With regard to the functioning of the works council, the interviewed employees possessed insufficient information since the works council has only very recently been reinstated and has met only minimally up to now. Employee 2 is one of the members.

“We still haven’t got quite used to it. It is new for all of us except one who has been a member before; it is still a bit watching which way the cat jumps. [...] First, we always have a discussion among ourselves about what is going on the shop floor and about what we think could be improved. We also hear things from the shop floor and that we try to translate to management in order reach to joint solutions.”

(employee 2)

This is also evidenced from the perception of respondents (see Table A6.3). By far, the greatest number indicates neutrality with regard to the functioning of the works council.

6.6.4.5 HR practices

Employees believe wages to be quite good compared to the market.

“Compared to what I am used to and what I have experienced, pay is very good here.”

(employee 1)

However, both blue- and white-collar respondents consider pay to be only average, as is exhibited in Table 6.25.

Table 6.25 Employee assessment of total HRM policy and individual HR practices at Rubber Co

Construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	10	2.91	2.64	2.93	3.50
	white-collar	10	3.25	3.00	3.25	3.45
	all employees	20	3.08	2.75	3.11	3.48
courses and training	blue-collar	11	2.87	2.20	3.00	3.60
	white-collar	10	3.28	3.00	3.20	3.60
	all employees	21	3.07	2.80	3.20	3.60
working conditions	blue-collar	15	3.49	3.00	4.00	4.00
	white-collar	12	3.89	3.83	4.00	4.00
	all employees	27	3.67	3.00	4.00	4.00
job discretion	blue-collar	13	3.35	3.00	3.25	4.00
	white-collar	12	3.81	3.50	4.00	4.00
	all employees	25	3.57	3.25	3.75	4.00
work-life balance	blue-collar	13	2.28	1.33	2.33	3.00
	white-collar	10	2.63	2.33	2.50	3.00
	all employees	23	2.43	2.00	2.33	3.00
Pay	blue-collar	14	3.07	2.75	2.88	3.50
	white-collar	11	3.00	2.25	3.25	3.75
	all employees	25	3.04	2.50	3.00	3.75
internal labour market	blue-collar	15	2.58	2.00	2.67	3.33
	white-collar	12	2.86	2.67	2.67	3.33
	all employees	27	2.70	2.33	2.67	3.33

quart. = quartile

Furthermore, with regard to the bonus system, procedures and criteria are considered to be insufficiently transparent.

“Well, if from one person is more expected than from a colleague, still, in the end they are rewarded in the same way. If my limit is a six, then I am at my maximum. But if the other’s limit is an eight, then there is a considerable difference between the two. While they both are assessed as good and are rewarded in the same way. I think that the one with an eight thinks ‘he goes three steps slower than me but gets the same reward’. So I have the feeling that it works negatively.”
(employee 2)

Employees indicate that the company responds flexibly to employees’ problems to combine their private and working lives.

“They take account of that [private situation, jdj] pretty much. Regarding this, I find it here really very social and reasonable. [...]”
(employee 2)

“My supervisor then comes to me with: if you want to be off, you can stay home. If they need you at home, you can stay home. I experience that as very positive.”
(employee 2)

The survey respondents think much more negatively about the opportunities the firm offers to balance private and working life, see Table 6.25.

Just as with the regard to the organisational climate, the interviewed employees seem to assess Rubber Co’s overall personnel policy and the individual HR practices more positively than the respondents to the questionnaire. This may be related to the fact that the interviewed employees are a component of higher and middle management, respectively. Both, however, are self-made men; they have achieved success in their current position after beginning in the ranks of the production workers.

Employees’ overall assessment of HRM policy is average with white-collars judging somewhat more positively than blue-collars. With regard to individual HR practices, white-collar employees across the range are more positive than blue-

collar employees with the exception of pay. To some extent, this may confirm the interviewed employees' statement that pay of production workers is relatively good. Working conditions and job discretion are evaluated relatively positively by both categories. The opposite pertains to work-life balance policies – which are even negatively assessed – and the internal labour market. The variance in assessment of both overall HRM policy and individual HR practices, however, is greater among blue-collar employees than among white-collar employees.

6.6.4.6 *Employee outcomes*

The interviewed employees assert significant satisfaction with their jobs. They believe that most of their colleagues enjoy working for the company except for a number of disgruntled production employees. Furthermore, employees take pride in their work.

The interviewed employees observe that employment security is an important basis for the employee relations arrangement within Rubber Co.

“And if we can keep people at work at the break-even point, then it is the firm's intention to do so. Then the personal is more important than the profit objective.”

(employee 1)

According to the interviewed employees, at the time of the transfer of one department to the Polish subsidiary and of the sale of another department to an external party, management succeeded in preventing insecurity and anxiety among the employees involved through timely and effective communication.

“If you know that your department is going to be discontinued, then you get uncertain, you wonder what will happen to you. Management handled this adequately. Peace had returned quite soon.”

(employee 2)

Table 6.26 exhibits – remarkably – that the appreciation of employees of overall employee outcomes of Rubber Co's employee relations arrangement is more positive than their rating of both the organisational climate and the overall HR practices.

Table 6.26 Employee outcomes of Rubber Co's employee relations arrangement

construct	category	N	mean	lower quart.	median	upper quart.
employee out-comes	blue-collar	13	3.55	3.23	3.62	3.92
	white-collar	11	3.64	3.38	3.54	3.85
	all employees	24	3.59	3.27	3.58	3.88
job satisfaction	blue-collar	14	3.45	2.83	3.50	3.83
	white-collar	12	3.46	3.17	3.58	4.00
	all employees	26	3.46	3.00	3.50	3.83
employment security	blue-collar	13	3.60	3.50	3.75	4.00
	white-collar	11	3.75	3.25	3.75	4.00
	all employees	24	3.67	3.38	3.75	4.00
work-related stress	blue-collar	14	3.62	3.33	3.67	4.00
	white-collar	11	3.82	3.33	3.67	4.00
	all employees	25	3.71	3.33	3.67	4.00

quart. = quartile

Employment security is indeed assessed as high while the level of work-related stress is quite acceptable to employees. Job satisfaction is experienced as between average and high. Variance among production workers is relatively high which may be indicative of the dissatisfaction with the three-shift system among a portion of the production workers.

6.6.4.7 Employee relations arrangement overall

All in all, employee perception of Rubber Co's employee relations arrangement indicates that, in their opinion, it can be typified as HRM-based. The owner-managers' level of other-regarding values is assessed as average to high. The organisational climate and HR practices – except those directly affecting work at the workplace – are judged as average. This may be related to the circumstance of the owner-managers recently introducing a new management style and new HR

practices following a negative report on working conditions and atmosphere at Rubber Co which, as yet, may not have crystallised completely among the workforce. The relatively high appreciation of employee outcomes and the relatively high commitment, however, may indicate an improvement in the employee relations arrangement as perceived by the workforce.

6.6.5 Employee performance

For a significant portion of the workforce – in the perspective of all persons interviewed – the change in personnel policies after 2006 resulted in a more employee-friendly organisational climate and HR practices that take employee needs and interests more into consideration. In turn, this has led to greater pride of and commitment to the company. This does only not pertain to a number of production workers due mainly to the introduction of the three-shift system. Turnover is perceived to be affected positively by commitment. This also pertains to production workers, though their low turnover may be caused by the relatively high pay at Rubber Co. Absenteeism, as previously mentioned, is relatively high. According to all persons interviewed, the majority of the workforce have a cooperative attitude towards the company regarding improvement of workplace conditions and production processes resulting in favourable employee as well as firm outcomes.

The level of employee commitment as indicated by Table 6.27 is comparable to the appreciation of the employee outcomes of Rubber Co's employee relations arrangement. It is high for white-collar employees and average to high for blue-collar employees.

Table 6.27 Employee commitment at Rubber Co

construct	category	N	mean	lower quart.	median	upper quart.
employee commitment	blue-collar	15	3.48	3.25	3.50	4.00
	white-collar	11	3.70	3.25	3.50	4.00
	all employees	26	3.58	3.25	3.50	4.00

quart. = quartile

Though commitment entails a willingness to put forth additional effort, it is indicated that it is difficult to precisely identify the relationship between the employee relations arrangement and positive firm outcomes. One cause may be the fact that the position towards employees is not unambiguous. On the one hand, management attempts to incorporate employees' needs and interests into the firm's personnel policy. On the other hand, some business policy measures, notably the introduction of the three-shift system, are perceived to be contradictory to the needs and interests of, at least, part of the employees.

6.7 HARVEST CO

Harvest Co's Dutch parent company only engages in sales activities that are performed by the owner-manager. Therefore, an employment relations arrangement as such is lacking in the parent company. This implies that there cannot be a transfer of practices in the usual manner. Research into international transfer in the framework of this company concerns the question to what extent personnel policies and practices can be characterised as employee-oriented CSR and to what extent these have been affected by the owner-manager's home country institutional environment instead of having been shaped by the host country institutional environment.

6.8 METAL CO

6.8.1 Metal Co's employee relations arrangement

Since the parent company in the Netherlands merely comprises a sales office consisting of only three relatively high-ranking employees and the subsidiary in Poland being the production location makes up, by far, the largest segment of the company, I have taken the subsidiary as the basis for the report on this case study company. This is also motivated by the fact that the owner-manager spends the majority of his time at the subsidiary. Furthermore, the researcher's first and most important interview with the owner-manager was conducted in the Polish subsidiary.

The employee relations arrangement in the parent company has a very informal set-up due to the fact that there are only three employees who, as salespersons, operate quite independently. Consequently, the level of job discretion can be considered as quite high. Employees are judged on their results and not on the manner in which they achieve their results. Job discretion includes having flexible working times which, as a side effect, allow arrangements to assist in maintaining employees' work-life balance.

Though career opportunities are very limited due to the small size of the Dutch parent establishment, employees experience ample opportunities for self-actualisation through participating in courses. Employees themselves can suggest courses they believe to be conducive to their activities. Courses are compensated in time and money if they are – directly or indirectly – job-related. There are no formal performance interviews. In the event of grievances, the owner-manager prefers an informal approach entailing that the plaintiff addresses his or her supervisor about the grievance. For the Dutch employees, the owner-manager is the supervisor.

The parent company is not encapsulated within a collective bargaining agreement. Pay, working times, holidays, and fringe benefits are negotiated individually. Pay is in accordance with market levels and is not performance-related. All in all, Metal Co's employee relations arrangement in the Netherlands appears to be (soft) HRM- based.

6.8.2 Employee perception

6.8.2.1 The owner-manager's other-regarding values

Metal Co's sales office in the Netherlands has three employees comprising two project managers and one financial manager. One of these employees has been interviewed. Two employees have responded to the questionnaire. Generally, their opinion regarding constructs and items does not diverge much. According to Table 6.28, both respondents perceive the owner-manager's level of other-regarding values to be high. This also was the outcome of the interview with Metal Co's employee.

Table 6.28 Employee assessment other-regarding values owner-manager Metal Co

N	mean	lower quartile	median	upper quartile
2	4.11	4.00	4.11	4.22

6.8.2.2 Union power

None of the employees are union members nor are they covered by a collective bargaining agreement. Not surprisingly, they rate union influence within the company as minimal (see Tables A7.1 and A7.2).

6.8.2.3 Organisational climate

The respondents assess the quality of the organisational climate as good, as is evident in Table 6.29. However, they rate the company's transparency as only average. The relationship with the owner-manager, however, is quite positive. Use of voice in the event of grievances is evaluated very differently: one employee is satisfied with the way grievances are addressed, the other dissatisfied (see Table A7.3).

Table 6.29 Employee assessment organisational climate and its underlying aspects at Metal Co

construct	N	mean	lower quartile	median	upper quartile
organisational climate	2	3.84	3.75	3.84	3.94
free use of voice	2	3.90	3.80	3.90	4.00
transparency	2	3.20	3.00	3.20	3.40
relational atmosphere	2	4.33	4.00	4.33	4.67

6.8.2.4 HR practices

Table 6.30 exhibits that the respondents are positive about Metal Co's overall personnel policy. Most individual practices are assessed positively as well, especially working conditions and job discretion or, otherwise stated, the practices directly impacting the quality of the workplace. Pay and policies on courses and training are less appreciated. Still, courses and training opportunities are rated as good while only pay is evaluated as being on the margin of average and good.

Table 6.30 Assessment overall HRM policy and individual HR practices at Metal Co

construct	N	mean	lower quartile	median	upper quartile
HR practices	2	3.86	3.68	3.86	4.05
courses and training	2	3.60	3.20	3.60	4.00
working conditions	2	4.50	4.00	4.50	5.00
job discretion	2	4.13	4.00	4.13	4.25
work-life balance	2	3.83	3.67	3.83	4.00
pay	2	3.50	3.25	3.50	3.75
internal labour market	2	3.83	3.67	3.83	4.00

6.8.2.5 Employee outcomes

Table 6.31 indicates that the overall appreciation of employee outcomes is slightly below the appreciation of overall HRM policy at Metal Co and the appreciation of the organisational climate. Though job satisfaction is high, work-related stress is apparently high as well implying that employees face high demands. This is confirmed by the interviewed employee's statement:

"I indeed have a busy job and perhaps, when appropriate, another person should be hired."

(employee)

6.8.2.6 Employee relations arrangement overall

Based on the perceived high level of other-regarding values of the owner-manager and on the high appreciation of both organisational climate and HR practices, Metal Co's employee relations arrangement, according to employee perception, can be characterised as employee-oriented CSR.

Table 6.31 Assessment employee outcomes at Metal Co

construct	N	mean	lower quartile	median	upper quartile
employee outcomes	2	3.73	3.69	3.73	3.77
job satisfaction	2	4.08	4.00	4.08	4.17
employment security	2	3.50	3.50	3.50	3.50
work-related stress	2	3.33	3.00	3.33	3.67

However, the relatively high work-related stress and – compared to the other elements of the constructs concerned – low levels of perceived employment security, attention for self-actualisation and assessment of transparency signify definite overtones of an HRM-based employee relations arrangement.

6.8.3 Employee performance

Table 6.32 Employee commitment at Metal Co

construct	N	mean	lower quartile	median	upper quartile
employee commitment	2	4.25	4.25	4.25	4.25

The level of commitment to the company is quite high according to Table 6.32. From the remarks of the interviewed employee, a certain willingness to put forth extra effort can be derived:

"When I work overtime for three weeks, I don't say I compensate that exactly the next three weeks. When your projects are running smoothly, you are inclined to go searching for new customers."

(employee)

This high level of commitment is in accordance with the perceived high level of other-regarding values of the owner-manager but is higher than the appreciation of organisational climate, HR practices, and employee outcomes of the employee relations arrangement.

6.9 CROSS-CASE ANALYSIS: THE PARENT COMPANIES' EMPLOYEE RELATIONS ARRANGEMENTS

6.9.1 The view of owner-managers

In Chapter 3, it has been argued that the combination of the owner-manager's other-regarding values and employee power defined the character of the firm's employee relations arrangement. The information in the preceding sections regarding the measures of owner-managers' other-regarding values and perceived employee power enables categorisation of the individual firms' employee relations arrangements according to the scheme presented in Section 2.6.2. In Tables 6.33 and 6.34, this information is presented summarily.

Table 6.33 depicts the scores of owner-managers on the other-regarding values dimension. Other-regarding values relate, first, to the basis upon which firms provide for employee needs and interests in their HR policies and practices. Firms may include employee needs and interests either as an end in itself or as a means to motivate employees to improve performance. Second, moral responsibility reflects the owner-manager's acknowledgement of employees' dependency on the firm for their livelihood, creating an obligation for the firm to provide for employment security as much as possible. Third, an owner-manager's assumption of mutual trust entails the belief that exhibiting trusting behaviour towards employees will be reciprocated. Fourth, the owner-manager making no non-functional distinction between various categories of employees implies positive appreciation of the value and essentiality of each employee's contribution toward the achievement of the company's goals.

Since considering employee needs and interests as an end in itself and the sense of moral responsibility for employees' employment security and well-being are believed to be the essence of other-regarding values, these measures are assigned double weight. I specify the level of other-regarding values as ranging from low via medium to high. A score between zero and two indicates a low level of other-regarding values, a score of three to five signals a medium level of other-regarding values while a score of six or seven represents a high level of other-regarding values.

Table 6.33 Elements of owner-managers' other-regarding values

firm	employee needs end in themselves	employee needs means to end	moral responsibility	mutual trust	no non-functional distinctions
Valve Co		x		x	x
Paint Co		x		x	x
Horti Co		x		x	x
Packing Co	xx	x	xx	x	x
Rubber Co		x	xx		x
Metal Co		x		x	x

Table 6.33 exhibits that there are no owner-managers with a low level of other-regarding values and that Packing Co's owner-manager is very distinctive with respect to other-regarding values.

Perceived employee power is assessed with six measures of which three relate to the instrumental aspect of employee power since they are perceived to directly impact the firm's competitive position:

1. employees' KSAs;
2. attitudes; and
3. experience.

'Attitude' reflects the importance that employers attach to deployment of initiative by employees. The other three measures are connected to the coercive nature of employee power in that they are perceived to coerce the firm to design and perform their HR policies and practices in more employee-friendly ways:

1. the level of protection of employees' working conditions by government regulation;
2. union power; and
3. works council power.

Union power is represented by the presence of collective bargaining agreements.

Table 6.34 Level of employee power as perceived by companies

Fir m	KSAs	attitude	experi- ence	govern- ment re- gulation	union power	works council power
Valve Co	x	x	x	x	x	
Paint Co	x	x	x	x	x	x
Horti Co			x	x		
Packing Co	x	x	x	x	x	
Rubber Co	x	x	x	x	x	x
Metal Co	x	x	x	x		

All measures carry equal weights. Table 6.34 presents an overview of the extent to which the individual firms perceive their employees to hold power. A score between zero and two indicates low employee power, medium employee power is assigned a score of three or four, and a score of five or six signals high perceived employee power. Only one firm, Horti Co, perceives employee power as being low; all the other firms believe that the power of their employees is medium or high.

Other-regarding values and perceived employee power are the dimensions defining the possible categories of employee relations arrangements as has been presented in Figure 2.4 in Section 2.6. Only Packing Co presents a distinctive representation. Since the owner-manager combines a high level of other-regarding values with perceived strong employee power, the employee relations arrangement can be classified as employee-oriented CSR. The employee relations arrangements of the other companies are more difficult to classify. Valve Co, Paint Co, and Rubber Co combine perceived strong employee power with a medium level of other-regarding values and, therefore, are in the border area of (soft) HRM and employee-oriented CSR. Horti Co, on the basis of its scores regarding perceived

power and other-regarding values, is on the margin of paternalism and the low-wage system. Therefore, the design and functioning of the employee relations arrangement is employed to shed further light on the nature of that particular arrangement.

Employee relations arrangements consist of two elements including the organisational climate of the company and the company's HR policies and practices. Table 6.35 depicts the scores of the individual firms on the measures of organisational climate based on the information from management: free use of voice, transparency, and relational atmosphere. Free use of voice and transparency are measured along the range low-medium-high while relational atmosphere is characterised as good, medium, or bad.

Table 6.36 presents the assessment of HR policies and practices based on the information from management. Measures are the extent to which:

1. employee needs form the basis of HR policies; and
2. HR policies and practices go beyond law and union contract. Scores are in the range low-medium-high.

For employee needs as the basis of HR policies and HR practices, 'low' implies that they are not taken into consideration; 'medium' entails that owner-managers take employee needs into account insofar that the needs help achieve the company's objectives; and, finally, high indicates that employee needs are considered an end in itself.

Table 6.35 Assessment organisational climate parent companies by owner-managers

firm	free use of voice	transparency	relational atmosphere
Valve Co	high	high	good
Paint Co	high	high	good
Horti Co	medium	low	medium
Packing Co	high	high	good
Rubber Co	high	high	medium
Metal Co	high	high	good

With regard to the second measure, 'low' indicates that virtually no practices proceed beyond what is prescribed by government legislation or collective bargaining agreements. Medium and high respectively indicate that some and many practices proceed beyond law and union contract.

Table 6.36 Assessment employee relations arrangement parent companies by owner-managers

firm	employee needs as basis	beyond law and union contract
Valve Co	medium	low
Paint Co	medium	low
Horti Co	high	low
Packing Co	high	medium
Rubber Co	medium	medium
Metal Co	medium	low

Tables 6.33-6.36 demonstrate that owner-managers indeed consider employees to be significant stakeholders and believe a positive organisational climate to be an important instrument for meeting both employee needs and interests and the needs and interests of the company. The relatively low scores on policies and practices going beyond the requirements of government regulation and collective bargaining agreements, rather, indicate that this is difficult and costly to achieve in prosperous and highly regulated countries – especially for SMEs with their limited resources (Crane *et al.*, 2008). Combining the data from Tables 6.33-6.36, the categorisation of the employee relations arrangements of the parent companies as envisaged by their owner-managers is presented in Figure 6.1. The employee relations arrangements at Paint Co, Valve Co, Rubber Co, and Metal Co as perceived by their owner-managers can be typified as HRM-based while the assessment of his firm's employee relations arrangements by the owner-manager of Packing Co can be characterised as employee-oriented CSR. Only Horti Co's arrangement can be typified as paternalism.

6.9.2 The view of employees

In the conceptual model, it is maintained that employee performance is intended by the owner-manager to result from the company's employee relations arrangement. This performance will be affected by the way employees perceive, experience, and rate this arrangement. Perception of the owner-manager's other-regarding values and experience of organisational climate, the firm's overall HRM policy, and single HRM practices affect employees' rating of the entire arrangement.

As appears from Table 6.37, employees, overall, consider owner-managers' levels of other-regarding values to be at least on the margin of medium and high. At Valve Co, Packing Co, and Metal Co, employees consider the owner-manager's level of other-regarding values to even be high. At Paint Co, Horti Co, and Rubber Co, blue-collar employees rate the owner-manager's level of other-regarding values lower than white-collar employees. At Valve Co and Packing Co, blue-collar employees seem to rate the owner-manager's level of other-regarding values as high as or higher than white-collar employees; however, the response rate among the blue-collar employees of both companies has been too low to formulate any concrete conclusions. The overall employee assessment of owner-managers' levels of other-regarding values appears to be higher than the assessment based on the self-report of owner-managers and the report of HRM staff.

Figure 6.1 Owner-managers' assessment of the parent companies' employee relations arrangements

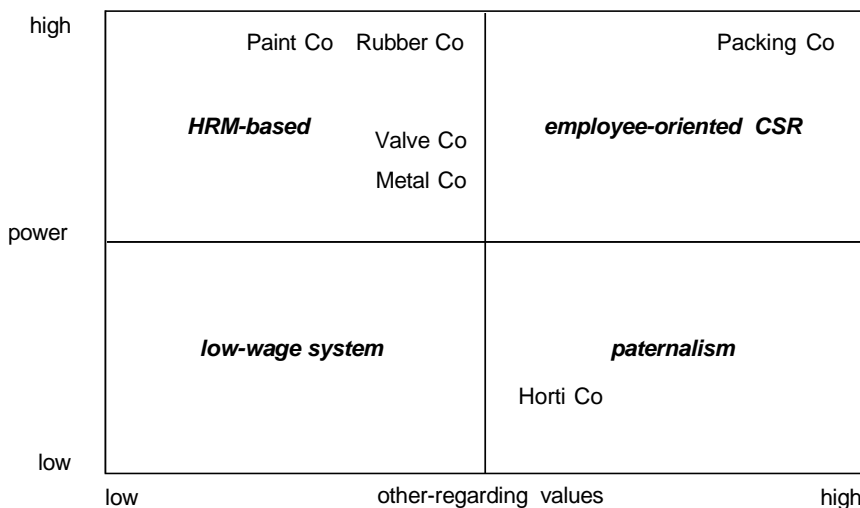


Table 6.37 Perceived other-regarding values owner-managers by blue- and white-collar employees¹

firm	all employees	blue-collars	white-collars
Valve Co	high	high	high
Paint Co	lower high	higher medium	lower high
Horti Co	lower high	higher medium	high
Packing Co	high	very high	high
Rubber Co	medium-high	higher medium	lower high
Metal Co	high	n.a.	high

As argued in Chapter 2, employee assessment of the company's employee relations arrangement is comprised of two elements including employees' perceptions of and experience with the degree to which both the firm's organisational climate and its overall HRM policy meet their needs and interests. Table 6.38 depicts the rating of each firm's organisational climate by their total workforce and by blue-collar and white-collar employees separately. Only at Packing Co does the workforce judge the organisational climate without qualifications to be good while the climate in the other organisations is qualified in the average range. Only the two employees of Metal Co assign their firm's organisational climate a rating just below Packing Co's rating.

¹ Measures are to be interpreted as follows:

low: ≤ 2.50 ;

lower medium/average: $2.50 < \text{measure} < 2.90$; medi-

um/average: $2.90 < \text{measure} < 3.10$;

higher medium/average: $3.10 < \text{measure} < 3.40$; medi-

um/average to high/good $3.40 < \text{measure} < 3.60$; lower

high/good $3.60 < \text{measure} < 3.90$;

high/good: $3.90 < \text{measure} < 4.10$;

very high/good: ≥ 4.10 .

Table 6.38 Rating firms' organisational climate by employees¹

firm	all employees	blue-collars	white-collars
Valve Co	lower good	average	good
Paint Co	average-good	higher average	average-good
Horti Co	average-good	higher average	average-good
Packing Co	very good	good	very good
Rubber Co	higher average	average	average-good
Metal Co	lower good	n.a.	lower good

Table 6.39 Employee rating of firms' overall HRM policy

firm	all employees	blue-collars	white-collars
Valve Co	lower good	higher average	lower good
Paint Co	higher average	higher average	higher average
Horti Co	higher average	average	higher average
Packing Co	lower good	lower good	lower good
Rubber Co	average	average	higher average
Metal Co	lower good	n.a.	lower good

Table 6.39 demonstrates the second section of the firms' employee relations arrangements as perceived by employees, overall HRM policy. First, it is notable that, in all firms, the organisational climate is rated higher than the overall HRM policies by employees. Second, the variance across firms in employees' assessment of their firms' overall HRM policies is lower – ranging between average

¹ Measures are to be interpreted as follows:

low: ≤ 2.50 ;

lower medium/average: $2.50 < \text{measure} < 2.90$; medi-

um/average: $2.90 < \text{measure} < 3.10$;

higher medium/average: $3.10 < \text{measure} < 3.40$; medi-

um/average to high/good $3.40 < \text{measure} < 3.60$; lower

high/good $3.60 < \text{measure} < 3.90$;

high/good: $3.90 < \text{measure} < 4.10$;

very high/good: ≥ 4.10 .

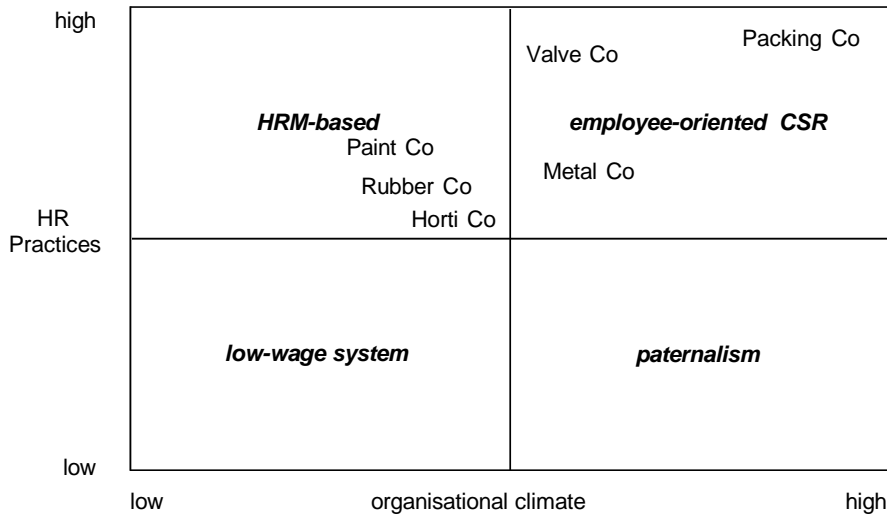
and lower good – than the variance in employees' rating of the organisational climate – ranging between average and very good. Apparently, the case study firms are more similar to one another in their HRM policies than in their organisational climates. In this context, Packing Co and Metal Co are also rated highest immediately followed by Valve Co.

Based on Tables 6.38 and 6.39, the employee relations arrangements as perceived by employees can be categorised as presented in Figure 6.2. The employee relations arrangements at Paint Co, Horti Co, and Rubber Co can be categorised as HRM-based while those at Packing Co, Valve Co, and Metal Co can be assigned as employee-oriented CSR. Conspicuously, employees seem to view their firms' employee relations arrangements as more employee-friendly than the owner-managers do. However, it must be noted that this is true in particular for white-collar employees as they generally evaluate the employee relations arrangement more positively than blue-collar employees.

From the Tables 6.37-6.39 can be inferred that the correlation between the perceived level of the owner-manager's other-regarding values and the organisational climate is stronger than that between the perceived level of the owner-manager's other-regarding values and the overall HRM policy. Furthermore, the analysis of the components of the organisational climate in the preceding sections has demonstrated that transparency has been assessed most negatively – except in the case of Packing Co – and that relationships with management have been rated most positively. It is to be expected that the perceived level of the owner-manager's other-regarding values will become evident most pointedly in mutual personal relationships. That transparency and free use of voice are rated less positively than personal relationships may be related to the rather informal character of the arrangements addressed in the case study companies. This latter observation also pertains to the overall HRM policy in these companies. This finding is in accordance with the findings of the literature on HRM policies in moderate and medium-sized companies (see Chapter 2).

The litmus test of how employees rate their firm's employee relations arrangement is their evaluation of the degree to which the arrangement's outcomes meet their needs and interests.

Figure 6.2 Categorisation of employee relations arrangements as perceived by parent company employees as a combination of organisational climate and overall HRM policy



This is demonstrated in Table 6.40 where employees' work-related needs and interests are divided into three categories. First, job satisfaction concerns employees' needs for having an agreeable and motivating job in a pleasant environment. After all, employees spend a large portion of their lives at their place of employment. Second, employment security provides employees with the assurance that their livelihood is provided for. Third, the level of work-related stress indicates how well employees can cope with job demands and, thus, indicates the potential effect of work on physical and mental health.

Overall, the case-study companies' employee relations arrangements seem to provide for their employees' overall work-related needs and interests to a large extent; outcomes range from average-good to good. Packing Co appears to perform best in this respect. The variance between blue-collar and white-collar employees is limited.

Table 6.40 Appreciation of employee outcomes of the firms' employee relations arrangements

firm	outcomes	blue-collars	white-collars	all employees
Valve Co	employee outcomes	lower good	average-good	lower good
	job satisfaction	high	lower high	lower high
	employment security	lower high	lower high	lower high
	work-related stress	higher medium	higher medium	higher medium
Paint Co	employee outcomes	average-good	lower good	lower good
	job satisfaction	higher medium	high	medium-high
	employment security	lower high	lower high	lower high
	work-related stress	medium-high	lower high	lower high
Horti Co	employee outcomes	higher average	lower good	average-good
	job satisfaction	medium	lower high	higher medium
	employment security	higher medium	high	lower high
	work-related stress	medium-high	medium-high	medium-high
Packing Co	employee outcomes	very good	good	good
	job satisfaction	very high	very high	very high
	employment security	very high	high	high
	work-related stress	lower high	lower high	lower high
Rubber Co	employee outcomes	average-good	lower good	average-good
	job satisfaction	medium-high	medium-high	medium-high
	employment security	medium-high	lower high	lower high
	work-related stress	lower high	lower high	lower high
Metal Co	employee outcomes	n.a.	lower high	lower high
	job satisfaction	n.a.	high	high
	employment security	n.a.	medium-good	medium-good
	work-related stress	n.a.	higher medium	higher medium

The most significant difference is ascertained at Horti Co where blue-collar employees rate outcomes as higher average and white-collar employees as lower good. The variance between the different aspects of employee outcomes within and between firms, however, is much greater. Remarkably, the level of job satisfaction does not vary much between blue-collar and white-collar employees. At Valve Co and Packing Co, blue-collar job satisfaction is even higher than white-collar job satisfaction, though this may be distorted by the relatively low response rate among blue-collar employees in these companies.

The nature of the employee outcomes of firms' employee relations arrangements is expected to be dependent on the manner in which employees perceive and experience the employee relations arrangement and the degree to which they believe the owner-manager acts upon other-regarding values with respect to the workforce. Based on the conceptual model, it is expected that a positively assessed employee relations arrangement and a perceived high level of other-regarding values of the owner-manager positively moderate employee outcomes. It is assumed that a perceived high level of other-regarding values has a positive effect, a medium level will have a neutral effect, and a low level of other-regarding values will produce a negative effect. The employee relations arrangements moderate employee outcomes in a similar manner. The arrangements characterised as employee-oriented CSR positively moderate employee outcomes while low-wage arrangements negatively moderate employee outcomes. In the HRM-based and paternalist arrangements, the positive appreciation of one component and the negative appreciation of the other component should cancel each other out, thereby inducing a neutral effect on the rating of employee outcomes. In Table 6.41, the results are presented. Employee assessment of the owner-manager's other-regarding values, the employee relations arrangement, and the employee outcomes of the arrangement are expressed in terms of positive (+), medium/neutral(0), or negative (-).

The results of Table 6.41 signify a positive correlation between perceived owner-managers' other-regarding values, assessment of the employee relations arrangement, and the rating of employee outcomes. This suggests that employee outcomes are indeed positively moderated by perceived owner-manager other-regarding values and the assessment of the firm's employee relations arrangement. The effect of the perceived level of the owner-manager's other-regarding values, however, appears to be stronger than that of the employee relations arrangement.

Table 6.41 The relationship between perceived owner-managers' level of other-regarding values, appreciation of firms' employee relations arrangements and employee outcomes

firm	other-regarding values	employee relations arrangement	employee outcomes
Valve Co	+	+	+
Paint Co	+	0	+
Horti Co	+	0	0
Packing Co	+	+	+
Rubber Co	0	0	0
Metal Co	+	+	+

6.10 CONCLUSION

All owner-managers involved in this research based their firms' employee relations arrangements on employee salience as determined by their other-regarding values and the level of perceived employee power. In contrast to the conceptual model, salience to most owner-managers is primarily determined by employee power and moderated by other-regarding values. They emphasised striving for those employee outcomes of the employee relations arrangement – such as responsibility for employment security and job satisfaction – that would increase employee performance through increased commitment. Only Packing Co's owner-manager explicitly indicated that his other-regarding values moderated by employee power underlie the design of the firm's employee relations arrangement.

The owner-managers indicate that their firms' competitive position is very much dependent upon employees' KSAs. All are convinced that development and deployment of employees' KSAs are essential for gaining competitive advantage in their markets. This is a powerful incentive to respond to those employee needs and interests that intensify employees' commitment and attitude towards development: employment security, direct voice opportunities, capability development, and job satisfaction. This implies that these components of the parent company's em-

ployee relations arrangement are most likely to be transferred to the foreign subsidiaries – if the KSAs of the subsidiary's employees are deemed equally important as those of the parent company's employees.

While collective bargaining agreements and government regulation are determined as preconditions with which each company must comply, employees' KSAs motivate owner-managers to devise their employee relations arrangements such that they compare favourably with other companies. Government regulations concerning working conditions and employment terms that support employee power, in general, are not considered problematic, with the exception of certain peculiar bureaucratic issues.

Owner-managers' opinions regarding union power are more mixed. All of them distinguish between union power at company level and at national level. Paint Co's owner-manager is the most negative about unions and views the arrangements in the collective bargaining agreements as hindering the optimal design of production processes on the company level and does not see much added value of unions in protecting employee rights in general. The owner-managers of Rubber Co and, in particular, Valve Co are more positive in both regards. Valve Co's owner-manager is quite positive about the training arrangements made in the collective bargaining agreement. The other owner-managers indicate that union influence on the company level is very limited (Packing Co) or non-existent because their companies are not covered by collective bargaining agreements (Metal Co and Horti Co). All three believe, however, that unions play a positive role in protecting employee rights in general.

Works council power that supports the position of employees only plays a role at Paint Co and Rubber Co. This power seems to be quite limited. Both owner-managers appear to view the works council mainly as an instrument to create support for management decisions though, at Rubber Co, more significance is attached to ascertaining employees' opinions on matters than at Paint Co. Both owner-managers state that works councils do not form a suitable consultation and code-termination instrument for medium-sized companies such as theirs due to the very minimal number of employees who are capable of fulfilling that function.

Based on the relative influence of owner-managers' other-regarding values and perceived employee power as reflected in the statements of the owner-managers and – if applicable – the HR staff, most parent companies' employee relations ar-

rangements can be characterised as HRM-based. Horti Co's employee relations arrangement is considered as paternalism while only Packing Co's arrangement can be designated as employee-oriented CSR. Strikingly, irrespective of the nature of the company's employee relations arrangement, owner-managers perceive the organisational climate as much more important than the application of advanced formal HR practices, with the incidental exception of practices such as performance interviews, which may directly affect employees' commitment and attitude towards development. All owner-managers consider the informality of relationships between management and the workforce as embodied in the organisational climate as an important asset. This finding is in accordance with the observation in the literature that employee relations arrangements in SMEs have a much more informal and personal character than in large firms (see Chapter 2).

From the employee perspective, the firms' employee relations arrangements are categorised along the dimensions of organisational climate – reflecting perceived owner-manager's other-regarding values – and the experienced quality of the firms' HR practices – as proxy of employee power (see Chapter 2). In all of the firms, employees, to varying extents, perceive owner-managers' other-regarding values to underlie the employee relations arrangement.

On average, the firms' organisational climates are positively assessed. Conspicuously, in almost all cases, transparency is the least positively evaluated component of the organisational climate. Comparing the statements of owner-managers regarding the intended openness of communication with the evaluation by the surveyed employees about the experienced openness of communication reveals that the views on what openness comprises differ between the two parties. Whereas owner-managers describe communication about the ins and outs of the company as open and transparent, employees appear to be of the opinion that significant improvement must occur in this respect. This may be related to the unwillingness of owner-managers to disclose financial information. Only Packing Co's employees assess all three components of the firm's organisational climate more or less equally.

With regard to HR practices, employees perceive that their KSAs are positively appreciated by all companies except Horti Co. This is evidenced from the fact that the HR practices directly affecting use and development of employees' KSAs – job discretion, working conditions, courses and training, and the internal labour market – are generally assessed more positively than the other HR practices which further affect employees' non-work related needs and interests. However, at

Paint Co and Rubber Co employees, especially blue-collars, appreciate the instruments that better deploy the present KSAs than those advancing KSA development implying that the owner-managers concerned rank deployment of present KSAs higher than KSA development. In none of the companies do employees feel that their KSA-based power within the company is supported by direct union influence other than through the arrangements in the collective bargaining agreement, if applicable. In general, however, this is not blamed on an adversarial management position.

Overall, employees' assessment of their firm's organisational climate is more positive than that of their firm's HR practices, including KSA-directed practices. This seems to indicate that employees perceive the influence of owner-managers' other-regarding values for design, implementation, and functioning of the firm's employee relations arrangement at least as important as the influence of their power. This is emphasised by the fact that employees' rating of the outcomes of the employee relations arrangement is higher than that of the HR practices and is comparable to their appreciation of the firm's organisational climate. Apparently, for employees as well as owner-managers, the organisational climate is considered more important for shaping the employment relationship than the concrete HR practices. Only at Valve Co is the rating of employee outcomes lower than the appreciation of organisational climate. At Paint Co and Rubber Co, the rating of the employee outcomes of the employee relations arrangement is even higher than the appreciation of the organisational climate. At Paint Co, this may be related to the relatively highly perceived employment security while, at Rubber Co, the low assessment of transparency may play a part.

Employees' commitment to the firm is at a comparable level to that of their rating of the employee outcomes of the employee relations arrangement which suggests a positive linear correlation between the two. Commitment seems to be greater than the rating of employee outcomes for both Valve Co and Metal Co.

Especially Packing Co's employees and – to a somewhat lesser degree – the employees of Valve Co and Metal Co appear to be quite satisfied with their firms' employee relations arrangements. This satisfaction can be attributed to both perceived high other-regarding values and perceived appreciation of their KSAs. As a result, these firms' employee relations arrangements as perceived by employees can be classified as employee-oriented CSR. The satisfaction of the other firms' employees with their employee relations arrangements is distinctly lower, in particular with regard to perceived owner-managers' other-regarding values. Con-

sequently, the employee relations arrangements of Paint Co, Horti Co, and Rubber Co as perceived by employees can be typified as HRM-based. Comparing owner-manager and employee assessments of firms' employee relations arrangements, it can be ascertained that, on average, employees seem to assess their firms' arrangements more positively than the owner-managers. However, there appear to be assessment differences between blue-collar and white-collar employees. This issue is addressed in Chapter 8.

CHAPTER 7

BASIS AND DESIGN OF THE CASE STUDY FIRMS' HOST COUNTRY EMPLOYEE RELATIONS ARRANGEMENTS

7.1 INTRODUCTION

In this chapter, the issue of transfer; the impact of the institutional environment on transfer; and the basis, design, intended effects, and employee perceptions and outcomes of the employee relations arrangements of the case study firms' subsidiaries are described and analysed. The possible transfer and the basis of the employee relations arrangements is expected – in accordance with the conceptual model – to be related to the owner-managers' opinion regarding employees as legitimate stakeholders and to the perceived power of employees. The design of the employee relations arrangement refers to the nature of firms' organisational climates and the design and execution of HR practices. The intended effects concern the arrangement's envisaged effects on employee performance. Subsequently, employee perceptions of the owner-manager's other-regarding values, organisational climate, and HR practices are addressed. Finally, both employee and firm outcomes of the employee relations arrangement are discussed. As has been elaborated in Chapter 4, findings are based on interviews with owner-managers, HR staff, subsidiary management, and subsidiary employees as well as from a survey among the subsidiaries' workforce.

The empirical findings per company are related to the various relevant elements of the conceptual model. Subsequently, it is analysed to what extent each of the propositions concerned seems to pertain to that specific company. This procedure is repeated for each company in Sections 7.2 to 7.8. Section 7.9 contains the cross-case analysis in which differences and similarities between the case study companies regarding their employment relations arrangements are discussed. A graphical presentation is constructed with other-regarding values and employee power as axes. Based upon the preceding discussion, the subsidiaries are positioned in this graph hereby visualising which primary type of employee relations arrangement is applicable. Finally, Section 7.10 contains the conclusion of this chapter.

7.2 VALVE CO

7.2.1 Transfer intent and institutional distance

Valve Co had acquired its Polish subsidiary as a brownfield investment in order to produce new products with low added value that are complementary to their products produced in the Netherlands. This implies that there is a considerable difference in required KSAs between parent company and subsidiary employees. Furthermore, in Poland, employee power is not reinforced by trade unions and, consequently, employees are not encapsulated by a collective bargaining agreement such as employees are in the parent company. Finally, proximity of subsidiary employees is lower than that of parent company employees. The owner-manager interacts with subsidiary employees only incidentally during visits to the subsidiary at irregular intervals. As a result, subsidiary and parent company employees may be considered as legitimate stakeholders in different degrees by management. The owner-manager, however, does not appear to make a fundamental difference between the two groups.

“I think the development curve we passed through in 50 years doesn’t have to last 50 years over there, but it may easily take 10 years. I do try to guarantee for the employees the essential points of safety, employment security and development that we do here as well.”

(owner-manager)

Apparently, management has the intention to transfer the parent company’s employee relations arrangement to the subsidiary in due time, but the perceived substantial institutional distance, combined with the company’s limited financial means, negatively affect the realisation of this intention.

“When we set up the factory in Poland, we stumbled across all sorts of things. Subsidiary managers who think ‘now I have received a nice pocketful of money from those West Europeans and now I pretend everything goes well because they are not here every week anyway’. But meanwhile nothing happens. You have to deal with employees who drink. Sometimes that results in a drama. But there also are very good people. But these you first have to find. That has been a costly and very time-consuming process.”

(owner-manager)

On the whole, differences in cognitive and normative institutions between parent company and subsidiary play an important role in the perception of the owner-manager. This is evidenced especially in employees' diminished initiative, compared to the Dutch establishment, and employees' apparent inability to work autonomously.

"If you give orders to the workforce, then they carry these out. But they do not think about how to improve things. If you want that to be done, you have to give a new order."

(Owner-manager)

Detailed supervision and monitoring appear to be necessary. Other important factors affecting the perception of institutional distance are the language barrier and the significance of hierarchical status.

"We speak English with the subsidiary manager. At first, this was ponderous as sometimes he said 'yes' without understanding what I said. Then, later, I asked whether it had been settled. Then this turned out not to be the case because he had not understood what I meant. I think this stems from fear. They want to please you as much as possible at costs as low as possible because you are the one with the money. But we want to have good quality. But they still not dare to give real transparency."

(owner-manager)

With regard to the external regulative environment, the owner-manager also perceives considerable differences between the Netherlands and Poland, not so much in legislation – as far as he is able to discern – as in implementation and enforcement. Apparent lack of implementation and enforcement are evident, for example, in workplace conditions in certain Polish factories that are far below legal standards. Furthermore, relationships with government institutions are characterised by an extensive amount of red tape.

"They are very bureaucratic in Poland, everything must have a signature and ten stamps and if you think everything has been arranged for, then you can fly back there just because one stamp was put in the wrong place."

(owner-manager)

All in all, management experiences the substantial institutional distance to be a crucial obstacle when attempting to transfer the Dutch establishment's HR practices and organisational climate to the Polish subsidiary. With regard to the external institutional environment, the parent company management is completely dependent upon the knowledge and experience of a locally hired accountant and the subsidiary manager which implies that local institutional knowledge is a potential source of power for the subsidiary manager. In the internal organisational environment, the parent company management experiences lack of initiative and heightened anxiety arising from differences in hierarchical status and a sense of dependence as significant hurdles to the implementation of the parent company's employee relations arrangement.

7.2.2 Institutional entrepreneurship and transfer results

Though it is management's intention to ultimately establish the Polish subsidiary's employee relations arrangement in accordance with the parent company, this appears to require a level of institutional entrepreneurship not yet achieved. Hindrances for developing this capability are lack of knowledge of local institutions, lack of resources to acquire that knowledge, and the weak financial position of the Polish subsidiary which results in anxiety among employees about the subsidiary's survival and, thus, their employment security. Anxiety about employment security is exacerbated by employees' distrust in the Dutch management's overall intentions. This distrust was nurtured by layoffs that occurred immediately following Valve Co's acquisition of the subsidiary. According to the owner-manager, the subsidiary was overstaffed at the time, therefore, these layoffs were necessary to improve the subsidiary's financial position and to secure continuity. Having achieved this, employment for remaining staff is secure despite the fact that the subsidiary currently is not profitable. However, this lack of profitability incites a feeling of dependency for the subsidiary workforce upon parent company resources and instils the workforce with fear that, despite all of this, the parent company will one day secede from the subsidiary.

With regard to the transfer of practices, priority lays with improving workplace conditions related to health and safety and with providing opportunities for training and courses. In the future, the parent company's quality manager is to assist the subsidiary manager in improving both production quality and person-

nel policy. Parent company management does appear to be involved with their Polish employees and undertakes efforts to increase proximity.

“What has done a lot of good is that we offer English courses. They find that fantastic. Then there comes a teacher who teaches in the canteen and the men like that very much and that goes for myself, too. Because now I can say something else to them than tea and coffee.”

(owner-manager)

Nonetheless, management's intention to bring HR policies and practices to a qualitatively comparable level with the parent company seems to have low priority. This may be related to the investment motive. Since the subsidiary's employees are only perceived as a source of competitive advantage based on their low costs, there is no instrumental obligation to heed their needs and interests. This is strengthened by lack of trade union power and the relatively low stringency of labour regulations in Poland.

Still, there are some initiatives for improving existing HR practices. First, wages are somewhat above the regional average. Second, all employees take fully facilitated courses in English to enable mutual communication. Finally, management attempts to increase employees' commitment by providing company outings such as joint dinners with parent company management and the subsidiary workforce. This indicates that, in the subsidiary, low employee power is combined with a relatively high level of other-regarding values of the owner-manager. The resulting employee relations arrangement can thus best be described in terms of paternalism.

7.2.3 Employee perception

7.2.3.1 Management's other-regarding values

According to Table 7.1, respondents, overall, perceive management's level of other-regarding values to be average. There is, though, a broad discrepancy between the perception of the only white-collar respondent and the blue-collar's perception. The variance between blue-collar employees is, however, considerable.

Table 7.1 Employee perception of other-regarding values management at Valve Co PL

	N	mean	lower quartile	median	upper quartile
blue-collar	3	3.07	2.44	3.00	3.78
white-collar	1	4.22	4.22	4.22	4.22
all employees	4	3.36	2.72	3.39	4.00

7.2.3.2 Union power

Union power is non-existent at Valve Co Poland. None of the respondents indicate membership in a trade union. Only one respondent filled out the items regarding union influence and indicated that management is averse to union membership. The other respondents may have considered it too risky to answer these items (see Tables A8.1 and A8.2).

7.2.3.3 Organisational climate

Table 7.2 demonstrates that the appreciation of the organisational climate concurs with employees' judgment about management's level of other-regarding values. With regard to the opportunities to use voice, opinions diverge widely both between white- and blue-collar employees and among blue-collar employees as a group. The overall perception is one of average voice opportunities, however, half of the respondents think quite positively about the voice opportunities they possess while the other half is quite negative. When examining voice opportunities with regard to grievances, respondents appear to assess these as neutral (see Table A8.3).

Table 7.2 Employee assessment organisational climate and its underlying aspects at Valve Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
organisational climate	blue-collar	2	2.88	2.00	2.88	3.75
	white-collar	1	3.81	3.81	3.81	3.81
	all employees	3	3.19	2.00	3.75	3.81
free use of voice	blue-collar	3	2.40	1.40	1.80	4.00
	white-collar	1	4.20	4.20	4.20	4.20
	all employees	4	2.85	1.60	2.90	4.10
transparency	blue-collar	3	2.27	1.40	2.20	3.20
	white-collar	1	3.40	3.40	3.40	3.40
	all employees	4	2.55	1.80	2.70	3.30
relational atmosphere	blue-collar	2	3.17	2.33	3.17	4.00
	white-collar	1	3.83	3.83	3.83	3.83
	all employees	3	3.39	2.33	3.83	4.00

quart. = quartile

The firm's transparency is judged by blue-collar employees to be low and by the white-collar respondent as just average. Variance among the blue-collar respondents, however, is quite high. The relational atmosphere is the most appreciated aspect of the subsidiary's organisational climate, though one blue-collar respondent designates it to be rather deficient.

7.2.3.4 HR practices

Table 7.3 indicates that the two blue-collar respondents who filled out all of the concerned items evaluated the overall HRM policy as average. Looking at the individual HR practices, it is striking that blue-collar workers experience job discretion to be considerable. Pay is considered as average by blue-collar

respondents and as good by the white-collar respondent. Working conditions are, overall, indicated as average but divergence between respondents is significant.

7.2.3.5 *Employee outcomes*

Surprisingly, as appears from Table 7.4, the employee outcomes of Valve Co's subsidiary's employee relations arrangement seem to be appreciated more positively than the components of this arrangement, the organisational climate, and the HR practices. It is only evident by the level of work-related stress that this may be correlated with the comparable level of job discretion. Perhaps the employees did not recognise the elements that comprise the other employee outcomes in either the organisational climate items or the HR practices items. Furthermore, it is noteworthy that the various aspects of employee outcomes are appreciated more or less equally.

With regard to possible institutional differences with the Netherlands, Valve Co's subsidiary employees do not appear to experience a significant role of hierarchical status. This may be related to the extremely small size of the subsidiary. They believe, as a majority, however, that West European employers are preferable to Polish ones (see Table A8.4).

7.2.3.6 *Employee relations arrangement overall*

All in all, combining employees' perceptions of management's other-regarding values with their assessment of organisational climate and overall HRM policy, the employee relations arrangement can be typified as HRM-based. Employees perceive that their needs and interests which contribute directly to achieving the firm's aims are provided for. On the other hand, the relatively high appreciation of employee outcomes may point more toward paternalism which would be in accordance with the owner-manager's intention to provide better working conditions than what is offered by many other companies in Poland.

Table 7.3 Employee assessment overall HRM policy and individual HR practices at Valve Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
HR practices	blue-collar	2	3.27	3.09	3.27	3.45
	white-collar	0				
	all employees	2	3.27	3.09	3.27	3.45
courses and training	blue-collar	2	3.10	3.00	3.10	3.20
	white-collar	0				
	all employees	2	3.10	3.00	3.10	3.20
working conditions	blue-collar	3	3.00	2.00	3.00	4.00
	white-collar	1	4.00	4.00	4.00	4.00
	all employees	4	3.25	2.50	3.50	4.00
job discretion	blue-collar	3	3.75	3.50	3.75	4.00
	white-collar	0				
	all employees	3	3.75	3.50	3.75	4.00
work-life balance	blue-collar	2	2.67	2.00	2.67	3.33
	white-collar	1	4.00	4.00	4.00	4.00
	all employees	3	3.11	2.00	3.33	4.00
pay	blue-collar	3	3.25	2.75	3.25	3.75
	white-collar	1	4.00	4.00	4.00	4.00
	all employees	4	3.44	3.00	3.50	3.88
internal labour market	blue-collar	2	3.50	3.00	3.50	4.00
	white-collar	0				
	all employees	2	3.50	3.00	3.50	4.00

quart. = quartile

Table 7.4 Appreciation employee outcomes employee relations arrangement at Valve Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee out-comes	blue-collar	3	3.62	3.23	3.54	4.08
	white-collar	0				
	all employees	3	3.62	3.23	3.54	4.08
job satisfaction	blue-collar	3	3.50	3.00	3.33	4.17
	white-collar	1	3.67	3.67	3.67	3.67
	all employees	4	3.54	3.17	3.50	3.92
employment se-curity	blue-collar	3	3.67	3.50	3.50	4.00
	white-collar	0				
	all employees	3	3.67	3.50	3.50	4.00
work-related stress	blue-collar	3	3.78	2.67	4.00	4.67
	white-collar	1	3.33	3.33	3.33	3.33
	all employees	4	3.67	3.00	3.67	4.33

quart. = quartile

7.2.4 Employee performance

Subsidiary employee performance appears to be good with respect to turnover and absenteeism. However, the existing employee relations arrangement, as yet, has not resulted in increased initiative, which the owner-manager believes to be crucial to increasing efficiency and productivity.

“For example, if five moulds need to be made, they will do that but they do not think further in the sense of making another one for that type so we can make a bit of production for the time being. That you have to tell them.”

(owner-manager)

Even more surprising is that employee commitment among respondents is astonishingly high, see Table 7.5. Perhaps this high level of commitment points – just as with the relatively high appreciation of employee outcomes – to a paternalistic employee relations arrangement.

Table 7.5 Employee commitment at Valve Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	3	4.33	4.00	4.00	5.00
	white-collar	1	4.25	4.25	4.25	4.25
	all employees	4	4.31	4.00	4.13	4.63

quart. = quartile

7.3 PAINT CO

7.3.1 Transfer intent and institutional distance

With regard to the stakeholdership of subsidiary employees, the owner-manager asserts to consider the parent company and the subsidiary employees as equally legitimate:

“I don’t make a distinction between people here and in Poland.”

(owner-manager)

This concurs with the fact that, since the subsidiary is a sales office, employee power in Poland is based on their KSAs, in particular with regard to the sales persons. However, unlike the parent company, employee power is not supported by trade union power. Paint Co Poland is not covered by a collective bargaining agreement, and employees secure individual labour contracts with management. Furthermore, proximity of subsidiary employees is less than that of parent company employees; the owner-manager visits the subsidiary only once per month. This proximity issue is made more acute by the language barrier between the owner-manager and most subsidiary employees. He is only able to communicate with them through the interpreter services of the local subsidiary manager.

Less proximity and weaker power negatively contribute to the owner-manager's transfer intent with regard to parent company personnel practices. The only aspect the owner-manager wants to transfer is the organisational climate – based on employment security, employee pride in their work, and absence of distinctions between various employee categories based on hierarchical status – from a perception that this will improve firm performance.

“Here, we have no distinctions based on hierarchical status. [...] When I took over in Poland, well, sense of hierarchical status is rather intense in Poland. What I have tried to do is [...] to make disappear this sense of hierarchical status.”

(owner-manager)

Yet, this sense of hierarchical status continues to prevail and is evidenced in a passive work attitude which negatively affects firm performance.

On the whole, the owner-manager perceives a great institutional distance between Poland and the Netherlands, especially with regard to normative and cognitive institutions. Institutional trust in Poland is low, and people fear formal institutions capable of imposing sanctions. According to the owner-manager, this is an inheritance from the Communist past. Furthermore, he observes a feeling of inferiority paired with jealousy of western countries such as the Netherlands.

“You meet in Poland with suspicion, mistrust. They really feel much smaller than us here in the wonderful, well-organised Netherlands.”

(owner-manager)

The owner-manager views the regulatory environment in Poland as positive. The laws governing dismissal, for example, are much less stringent than in the Netherlands.

“If you want to fire someone in the Netherlands, that is costly, dreary and time-consuming. In Poland, the law governing dismissal is much more flexible. So, as employer, I say: well, give me that legislation from Poland, in this respect.”

(owner-manager)

Enforcement of labour laws in Poland is also less strict than in the Netherlands. The influence of trade unions is only minimally discernible. This makes Poland an attractive country for foreign direct investment because employees' bargaining power is far lower than in, for example, the Netherlands.

The owner-manager contends that being employed by a Western European company is much more attractive to employees than employment in a domestic company due to the significantly more favourable terms of employment. This implies that, in this respect, foreignness is not a liability (Zaheer, 1995) but, rather, an asset as being foreign affords firms an opportunity to select the best employees.

The perceived institutional distance with regard to normative and cognitive institutions appears to affect the owner-manager's transfer intent with regard to parent company personnel practices. The owner-manager states his intent is to transfer the organisational climate since this positively affects employees' commitment. Therein, he explicitly includes the assurance of employment security. The design of the specific practices, however, he imparts exclusively to subsidiary management. On the other hand, this approach is hardly surprising because, in fact, this corresponds with the basic idea underlying the parent company's employee relations arrangement as well as where personnel policies are predominantly informal and do not proceed beyond compliance with what is stipulated in legal regulations and collective bargaining agreements.

7.3.2 Institutional entrepreneurship and transfer results

Paint Co's owner-manager expressly strives for change in the cognitive and normative institutions in the Polish subsidiary's internal organisational environment.

"I try to change the mentality by telling what we do here. [...] It works, but far too slowly in my opinion."

(owner-manager)

The role of hierarchical status has been his initial point of attack by emphasising – supported by his power base with respect to resources and decision-making – that every person matters and, thus, is equal within the organisation and by emphasising the importance of a good relational working atmosphere. To accomplish this, for example, he attempted to increase proximity by taking all of the staff out to dinner during his visits in order to become more familiar with each other. In doing so, he fulfilled a number of conditions for institutional entrepreneurship as described by Phillips (2009) and Battilana *et al.* (2009), by primarily employing power of meaning (Ferner *et al.*, 2012). First, he demonstrates an understanding of the nature and effect of institutional differences between Poland and the Netherlands. Second, he emphasises the perceived deficiency of normative and cognitive institutions to the subsidiary workforce. Third, he initiates institutional change by describing the nature of the organisational climate he is striving for. Finally, he undertakes efforts in implementing the desired institutional change by setting an example through his behaviour toward both subsidiary management and subsidiary employees.

This approach appears to have been successful in the aspect that the interviewed Polish employees indicate experiencing no hierarchical distance between one another. The organisational climate is open, affording an opportunity to exercise voice. Employees state they form a cohesive team. Furthermore, the owner-manager's actions and behaviour also seem to have resulted in greater commitment to the company. Employees indicate that a higher wage elsewhere, in itself, is not sufficient to incite them leave the company. However, commitment is related not so much to the parent company as to the subsidiary.

“We all are committed to the company and want to achieve our objectives. We want to do something good for the company but not because we think the Dutch parent is so nice to us.”

(subsidiary manager)

This latter aspect is related to a feeling that they take only second place to the parent company due to the perceived insufficient support and investment by the parent company. The owner-manager, indeed, admits that the perception of insufficient investment is justified. The growth of sales in the Netherlands is that abundant that it completely engulfs the company's investment capacity.

The policies and practices applied in the employee relations arrangement in the Polish subsidiary seem to include more elements of employee-oriented CSR than

those of the parent company, e.g., management's treatment of employees on an equal base, provision of employment security, and level of pay. This is associated with the relatively low standard employment terms in the Polish national business system. The owner-manager assumes the company pays an above market wage since, for instance, for a locally published vacancy for a subsidiary manager, he received over 200 applications. The sales persons and the subsidiary manager receive partly performance-related pay while the salaries of the other employees consist of a fixed amount. Overtime is always paid which is not a regular feature of Polish SMEs (see Chapter 5).

With regard to participation, employees have a high level of job discretion. Employees are responsible for performing their tasks but can decide for themselves how and in what order. The subsidiary manager appreciates it if employees make suggestions for improving processes within the firm. At a more aggregate level, sales persons participate in a weekly team meeting. Grievance procedures are more or less similar to those in the Netherlands. Grievances are discussed either with the subsidiary manager or with the owner-manager.

"I think that if they [employees, jdj] have complaints about me, they will come to me because I am a woman who can admit her errors."

(subsidiary manager)

The subsidiary manager informs the workforce about firm performance, especially with regard to the performance of the subsidiary.

Employees are offered training, though on a limited scale since the training budget is minimal. Occasionally, sales persons receive training in the Netherlands.

"It would be great if more could be spent on courses. I think competitors – but these are large enterprises – do more in this area."

(subsidiary manager Poland)

Vacancies above entry level are filled internally if proper candidates are available. If not, then external recruitment occurs. It was mentioned that a positive side-effect of the latter is that it brings in new people with new ideas. This seems to differ somewhat from the explicit preference in the parent company for an internal labour market.

The subsidiary's employee relations arrangement as devised by the owner-manager and the subsidiary manager can be characterised as employee-oriented CSR despite less employee power compared to the parent company because of the absence of collective bargaining agreements as well as a works council and a lower level of protection by government regulations and enforcement. Employees' legitimacy as stakeholders is equally high in the parent company and its subsidiary. Consequently, the owner-manager has more freedom to include, of his own accord, policies and practices that, in the parent company, are arranged on the basis of the collective bargaining agreement or because they are considered more or less taken for granted institutionally. In the Polish institutional environment, however, these practices are not self-evident and, thus, can be considered as components of employee-oriented CSR as they proceed beyond legal obligations in Poland. Finally, less proximity of subsidiary employees compared to parent company employees has not noticeably affected the owner-manager's opinion on the subsidiary employee relations arrangement.

7.3.3 Employee perceptions

7.3.3.1 Management's other-regarding values

The fresh atmosphere that the new owner-manager brought into the company is also noticed by employees in Poland.

“When we got a new boss in the Netherlands, policies have changed enormously. [...] Before we were humiliated a lot, but the new boss keeps a close eye to the process so that we are not treated badly.”

(employee Paint Co Poland)

The results of the questionnaire – filled out by only white-collar employees – appear to confirm this with a perceived level of other-regarding values assessed as medium to high according to Table 7.6.

Table 7.6 Perceived other-regarding values at Paint Co PL

N	mean	lower quartile	median	upper quartile
4	3.67	3.33	3.56	4.11

7.3.3.2 *Union power*

Two of the four respondents are not a member of a trade union while the other two indicate that this item is not applicable. With regard to union influence in the company or the union's relevance for protection of employee rights, in general, employees indicate themselves as neutral (see Tables A9.1 and A9.1). This may be associated with the near-absence of unions in Polish SMEs, the lack of collective bargaining agreements and – compared to the Netherlands – the less developed social dialogue in Poland which has been signalled in Chapter 5.

7.3.3.3 *Organisational climate*

Communication is appreciated as open by the interviewed employee which is expressed, amongst other things, in addressing one another by the first name. This latter aspect appears to be confirmed by the high appreciation of the relationship between subsidiary management and employees in Table 7.7. However, respondents believe transparency to be of only medium quality compared to the more positive assessment of voice opportunities and the overall organisational climate.

Table 7.7 Assessment of the organisational climate and its underlying aspects at Paint Co PL

construct	N	mean	lower quartile	median	upper quartile
organisational climate	4	3.73	3.47	3.69	4.00
free use of voice	4	3.80	3.40	3.80	4.20
transparency	4	3.25	3.10	3.30	3.40
relational atmosphere	4	4.08	3.75	3.92	4.42

7.3.3.4 *HR practices*

The interviewed employee, overall, is positive about the subsidiary's employee relations arrangement. He considers pay to be good which is contrary, however, to

what is indicated in the general employee opinion in Table 7.8. The interviewed employee asserts having a high level of job discretion and states that taking initiative and making improvement suggestions is appreciated very positively by management. This is in accordance with the positive appreciation of voice opportunities in Table 7.7 as well as with the high level of experienced job discretion.

“Suggestions are appreciated very much; suggestions come from us, and we see we have influence within the company. [...] everybody can say what he thinks about the market situation, can raise issues and this is good for work quality.”

(employee Paint Co Poland)

Table 7.8 Assessment total HR practices and individual HR practices at Paint Co PL

construct	N	mean	lower quartile	median	upper quartile
HR practices	4	3.72	3.23	3.68	4.20
courses and training	4	3.50	2.60	3.50	4.40
working conditions	4	4.33	3.67	4.67	5.00
job discretion	4	4.38	4.00	4.38	4.75
work-life balance	4	3.50	3.17	3.50	3.83
pay	4	3.06	2.38	3.25	3.75
internal labour market	4	3.67	3.33	3.67	4.00

The grievance procedure, though informal, is perceived as fair. However, respondents express themselves only neutrally regarding grievance management (see Table A9.3).

The interviewed employee asserts that permanent labour contracts are the rule in the subsidiary. Working conditions are deemed to be good apart from the housing. Opportunities for self-actualisation through training and courses are positively appreciated.

“Once I had a refresher course, but I know there are more possibilities because of the experiences of other employees. I think that if I want to

continue studying, the company will assist me if it is useful to the company."

(employee Paint Co Poland)

There is certain attention paid to the work-life balance. If the family situation requires an employee to remain home more often, working hours can be adapted, and it is feasible to take days off. Generally, the observations of the interviewed employee on individual HR practices are associated with the corresponding assessment of the respondents to the questionnaire.

7.3.3.5 Employee outcomes

Employee outcomes of the employee relations arrangement in the subsidiary seem to be positive. Employment is perceived to be relatively secure; this is related to employees' feeling of being treated fairly by the current owner-manager. The relational sphere is stated to be very good; the team is close-knit and employees see each other also outside of work. Overall, the interviewed employee asserts satisfaction with his job, especially because of the good atmosphere in the company.

"If a job would be offered to me elsewhere in the same function where I could earn 10-15% more, I would not accept that automatically. It also depends on the relational sphere in that other company."

(employee Paint Co Poland)

This statement is not completely confirmed by the results in Table 7.9 where the overall employee outcomes are rated as average by most respondents. Job satisfaction, in this aspect, exerts a downward influence on the appreciation of overall employee outcomes while employment security and work-related stress are evaluated more positively.

7.3.3.6 Employee relations arrangement overall

Based on the perception of the interviewed employee, the critical incident of the company's acquisition by the current owner-manager appears to have had the same effects on employee opinions in the subsidiary as it does in the parent company.

Table 7.9 Appreciation employee outcomes employee relations arrangement at Paint Co Poland

construct	N	mean	lower quartile	median	upper quartile
employee outcomes	4	3.46	2.77	3.00	4.62
job satisfaction	4	3.21	2.08	3.33	4.33
employment security	4	3.92	3.25	4.25	4.25
work-related stress	4	3.92	3.33	3.67	4.50

The change in policies and practices has been appreciated very positively which is evidenced in a positive evaluation of the organisational climate and the employment terms. However, just as in the parent company, the results of the questionnaire among the workforce points less unambiguously to positive outcomes. But, here too, the situation prior to the takeover may have been worse so that the new situation still represents an improvement. Overall, employees seem to view the employee relations arrangement as being HRM-based.

7.3.4 Employee performance

The subsidiary manager perceives the company's good relational sphere to positively affect customer satisfaction and, thus, productivity.

“All employees feel committed to the company. [...] The good sphere in the company affects the relationship with customers. They like that. We go to customers, eat together and talk about private affairs. Therefore, they stay with us, even when they get a better offer from another company. With that good relationship, we can even repair errors from the parent company.”

(subsidiary manager)

The positive atmosphere in the company also appears to be expressed in high commitment of employees as is indicated by Table 7.10.

Table 7.10 Employee commitment at Paint Co Poland

construct	N	mean	lower quartile	median	upper quartile
employee commitment	4	4.06	3.25	4.00	4.88

The company evaluates the results of the present subsidiary employee relations arrangement as positive. The organisational climate and the utilised personnel practices are perceived to result in greater employee commitment and job satisfaction. These are asserted to subsequently lead to positive effects on employee performance, principally in the form of cost savings due to reduced turnover and absenteeism. Additionally, greater employee initiative is argued to lead to positive effects on both productivity and cost level. Based on Tables 7.7-7.10, commitment is high despite only moderate job satisfaction. Employee commitment seems to be predominantly related to the good relationships between the workforce and subsidiary management.

7.4 HORTI CO

7.4.1 Transfer intent and institutional distance

The owner-manager's relationship with the Estonian subsidiary has a purely business-like character. His primary issue is to secure the supply of qualitatively good raw materials. Operational management is left completely to the local general manager who also happens to be shareholder with a share of 25% in the Estonian company. The Dutch owner-manager only intervenes in decisions with substantial financial consequences such as major investments. He undertakes no efforts nor has any intentions to transfer employment relations practices to the Estonian subsidiary.

7.4.2 Institutional entrepreneurship and transfer results

The Estonian local manager states that Estonia has stringent labour legislation and regulations especially with regard to health and safety conditions at work. He

suggests that control regarding compliance is strict as well. The labour inspection visits the company annually to inspect labour conditions and registration of working hours. Companies are legally obligated to appoint a confidential advisor who maintains contact with the labour inspection. The confidential advisor is protected against dismissal. According to the subsidiary manager, employees have no specific preference for employment in foreign companies; pay and working atmosphere are decisive in their decision of where to work. The company attempts to strengthen employees' bond with the firm by offering a yearly festive outing.

"We don't need to pay high wages to employees to keep them. We have a good atmosphere in the company, that is why they like to stay. For example, at the end of the season, we have a big party together with family members and with an orchestra or a boat trip to a natural reserve."

(subsidiary manager)

Maintaining a good relational atmosphere, however, appears to be the only way in which the firm attempts to meet employees' needs and interests in order to retain them. In fact, the subsidiary manager does not seem to consider employees as stakeholders whose needs and interests should play a part in the way the business is managed. This appears to be based on the subsidiary manager's conviction that employees have a negligible influence on the firm's financial performance.

"The employee's attitude is not functional here. For example, if the upper layer of the peat must be turned, and someone does this twice as fast, then the quality is that much negatively affected that I can't pay for it."

(subsidiary manager)

The basis of the local manager's employee relations arrangement is offering employment security. This is accomplished by giving employees permanent contracts and by not dismissing people for minimal setbacks in financial firm performance.

"We try to offer [our permanent employees, jdj] employment security but from a decrease in sales of more than 30% that is getting difficult."

(subsidiary manager)

This position appears to be motivated by self-regarding values; employees are difficult to replace as it takes new employees at least a year to learn the skills required to deliver a good quality product.

Employment terms including wages are negotiated individually. Wages are determined from the average level of the industry. Combining the owner-manager's remark that total labour cost in the parent company is four times higher than in the subsidiary and the subsidiary manager's remark that the average wage in Estonia is approximately 700 euro per month, though this does not pertain to his company, suggests that the subsidiary's wages are below the national average. Yet, it must be noted that the average wage level in the region of Tallinn – where the majority of the population resides – is much higher than in the other regions, see Chapter 5. A possible raise in pay is discussed individually with employees on a yearly basis. Wages are partly fixed and partly related to performance. Overtime is paid, according to the local manager.

“Fifteen years ago, employers paid out part of the hours under the counter, but now that doesn't happen anymore or only incidentally. In a really functioning company, this does not happen.”

(subsidiary manager)

Other personnel instruments are training and information provision. Knowledge of new technologies and techniques is distributed by the industry association. This new knowledge is provided to employees through on-the-job-training. Participation, both formal and informal, is virtually non-existent. To an extent, information regarding firm performance is provided to employees. Furthermore, the owner-manager appreciates employee suggestions for changes if these are economically profitable.

“We appreciate it when employees come up with good ideas. Taking initiative is important if it is profitable for the business. An example is the idea to improve the drying process through certain measures. If ideas can be expressed in money, employees are stimulated to contribute something useful.”

(subsidiary manager)

The company is prepared to assist people if they experience problems at home, predominantly by arranging other working times.

The employee relations arrangement resulting from medium employee power and a low level of other-regarding values of the subsidiary manager can best be described in terms of a low-wage system. The wage level appears to be relatively low, though this may be related to the significant regional differences in wages in Estonia. Besides, employee commitment is not considered to be relevant for firm performance. Nonetheless, employee contributions in the form of cost-saving suggestions are appreciated by management.

7.4.3 Employee perceptions

Since it has not been possible to interview employees on their perception of the subsidiary's employee relations arrangement, the assessment of this perception is based entirely on the results of the questionnaire distributed to the subsidiary's employees. The questionnaire has been returned by all employees, though not all respondents filled in all of the items.

7.4.3.1 Management's other-regarding values

Table 7.11 demonstrates that, overall, employees rate management's level of other-regarding values as being on the margin of average and high. Blue-collar employees rate the other-regarding values slightly lower than white-collar employees.

Table 7.11 Perceived other-regarding values of management at Horti Co EST

	N	mean	lower quartile	median	upper quartile
blue-collar	7	3.32	3.11	3.44	3.56
white-collar	8	3.61	3.28	3.67	4.00
all employees	15	3.47	3.11	3.44	3.78

7.4.3.2 *Union power*

Union power is non-existent at Horti Co Estonia. Only one (white-collar) worker indicates being a union member. Respondents perceive management's position towards union membership to be either neutral or negative. Union influence is also perceived to be virtually non-existent. Blue-collar employees believe unions to be important for the protection of employee rights while white-collar employees take a more negative stance in this respect (see Tables A10.1 and A10.2).

7.4.3.3 *Organisational climate*

As is evident in Table 7.12, employees' overall assessment of the organisational climate is slightly below the perceived level of other-regarding values due to the relatively low appreciation of blue-collar workers. White-collar assessment of the organisational climate is more or less equal to their perception of management's level of other-regarding values. Voice opportunities are rated average by blue-collar employees and good by white-collars. This corresponds with the difference between the blue-collar and white-collar assessments of the way management manages grievances and with the way management responds to disagreements with their decisions (see Table A10.3). Transparency is the lowest rated aspect of the organisational climate, especially by blue-collar employees where it is rated as only just average.

7.4.3.4 *HR practices*

Based on Table 7.13, the assessment of Horti Co Estonia's overall HRM policy is average. Its appreciation by employees is slightly below their appreciation of the organisational climate due to the relatively low white-collar appreciation rate. Blue-collar employees rate overall HRM policy slightly above the organisational climate. The assessment of the various individual HR practices does not diverge to a great extent within the two functional groups.

Table 7.12 Employee assessment organisational climate and its underlying aspects at Horti Co EST

construct	category	N	mean	lower quart.	medi-an	upper quart.
organisational climate	blue-collar	6	3.02	2.94	3.09	3.38
	white-collar	5	3.66	3.75	3.88	3.94
	all employees	11	3.31	2.94	3.38	3.88
free use of voice	blue-collar	9	3.20	3.00	3.20	3.80
	white-collar	8	4.00	3.90	4.00	4.40
	all employees	17	3.58	3.00	3.80	4.00
transparency	blue-collar	10	2.78	2.40	3.00	3.00
	white-collar	9	3.47	2.80	3.60	3.80
	all employees	19	3.11	2.60	3.00	3.60
relational atmosphere	blue-collar	6	3.56	3.33	3.50	4.00
	white-collar	6	3.69	3.00	3.83	4.17
	all employees	12	3.63	3.17	3.67	4.00

quart. = quartile

Highest rated by blue-collars is their job discretion which they experience as being on the margin of average and good while they rate self-actualisation opportunities through courses and training lowest. Divergence of assessment across practices is greater for white-collars than for blue-collars. White-collar employees rate the internal labour market and working conditions best while they judge pay and job discretion to be good as well; least appreciated are work-life balance opportunities in the firm which are rated as only average.

Table 7.13 Employee assessment overall HRM policy and individual HR practices at Horti Co EST

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	7	3.21	3.09	3.18	3.82
	white-collar	4	3.43	3.20	3.57	3.66
	all employees	11	3.29	3.09	3.32	3.68
courses and training	blue-collar	9	3.00	3.00	3.20	3.40
	white-collar	5	3.28	3.20	3.20	3.60
	all employees	14	3.10	3.00	3.20	3.60
working conditions	blue-collar	9	3.22	2.67	3.33	3.67
	white-collar	8	3.75	3.33	4.00	4.00
	all employees	17	3.47	3.00	3.67	4.00
job discretion	blue-collar	10	3.47	3.00	3.50	4.00
	white-collar	8	3.66	3.25	3.88	4.00
	all employees	18	3.56	3.00	3.75	4.00
work-life balance	blue-collar	8	3.04	2.67	2.83	3.33
	white-collar	7	3.00	2.33	3.00	3.33
	all employees	15	3.02	2.67	3.00	3.33
pay	blue-collar	10	3.05	2.25	3.25	3.50
	white-collar	7	3.68	2.75	4.00	4.25
	all employees	17	3.31	2.75	3.25	4.00
internal labour market	blue-collar	10	3.13	3.00	3.00	3.67
	white-collar	8	3.75	3.33	3.67	4.00
	all employees	18	3.41	3.00	3.33	3.67

quart. = quartile

7.4.3.5 *Employee outcomes*

Employees' assessment of the extent to which the outcomes of the employee relations arrangement, as presented in Table 7.14, correspond with their needs and interests is on the margin of average and good. Their appreciation of employee outcomes is in accordance with their perception of management's level of other-regarding values. Blue-collar employees experience less job satisfaction than white-collar employees, but their rating of employment security and the level of work-related stress is comparable.

Table 7.14 Assessment employee outcomes employee relations arrangement at Horti Co EST

construct	category	N	mean	lower quart.	median	upper quart.
employee outcomes	blue-collar	8	3.38	3.31	3.35	3.58
	white-collar	7	3.64	3.15	3.62	4.23
	all employees	15	3.50	3.31	3.54	3.69
job satisfaction	blue-collar	9	3.19	3.00	3.33	3.33
	white-collar	8	3.75	3.25	3.75	4.67
	all employees	17	3.45	3.17	3.33	3.67
employment security	blue-collar	8	3.69	3.50	3.63	3.88
	white-collar	7	3.71	3.50	3.75	4.00
	all employees	15	3.70	3.50	3.75	4.00
work-related stress	blue-collar	9	3.56	3.33	3.67	4.00
	white-collar	6	3.71	3.33	4.00	4.00
	all employees	17	3.63	3.33	3.67	4.00

quart. = quartile

7.4.3.6 *Employee relations arrangement overall*

In conclusion, employee perception of the employee relations arrangement at Horti Co Estonia is inclined toward a paternalist arrangement, which differs from the conclusion of the previous section. Elements of the low-wage system such as low pay and a purely economic exchange between management and employees are not discernible in the perception of employees as witnessed by their rating of pay and the relationship between management and the workforce.

7.4.4 **Employee performance**

The subsidiary manager believes employee knowledge and experience to be essential to firm performance because these are the essential requirements for a high quality product which is subsequently critical for generating sufficient sales. He also believes commitment to have only a minimal effect on firm performance.

“If someone does exactly as told, then the minimum program has been realised. [...] The process cannot be improved. Machines often determine the speed of the process.”

(subsidiary manager)

Table 7.15 demonstrates that employee commitment to the company is high for white-collar employees and in between average and good for blue-collar employees. This is remarkable in consideration of the fact that employees' ratings of all other aspects related to the employee relations arrangement is considerably lower than self-reported commitment.

Turnover and absenteeism are very low at the subsidiary which may associated with the high employee commitment.

Table 7.15 Employee commitment at Horti Co Estonia

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	9	3.50	3.50	3.50	3.75
	white-collar	8	4.03	3.75	4.00	4.63
	all employees	17	3.75	3.50	3.75	4.00

quart. = quartile

7.5 PACKING CO

7.5.1 Transfer intent and institutional distance

A great difference signalled by the owner-manager between Poland and the Netherlands is the importance of hierarchical status. Most strikingly, he considers the difference in trusting behaviour towards employees.

“What I find a very important difference is trust; you have to pay attention to that when you are there, they deal over there very differently with trust in employees, [...] I had never realised that people’s distrust in these [East European] countries was that big, [...], that is not part of your culture, not of the company nor of myself.”

(owner-manager)

As an illustration, the subsidiary manager states that people who have grown up in the socialist period are not as inclined to exert themselves for work. On the other hand, older people are also familiar with more intense supervision and monitoring. He is also wary of relationships with employees that are too informal.

“In Poland, things are different than in other countries: in Poland. I don’t want to have informal relations with some employees because I am afraid that misuse may be made of this.”

(subsidiary manager)

The local subsidiary manager states that he appreciates the level of openness in the parent company. He continues to be hesitant, however, to create a similar organisational climate out of fear that this will undermine his authority. This attitude is reflected in the owner-manager's remark that, in Poland, the hierarchical distance within organisations is much greater than in the Netherlands.

The perceived regulative institutional distance is also significant in the sense that the owner-manager is unfamiliar with the Polish labour law apart from the much more flexible regulations governing the right of dismissal. Trade unions have no influence within the subsidiary. Consequently, employee power is not supported by union power. Government regulation is more pervasive: according to the local manager, governmental control regarding compliance is much more stringent in Poland than in the Netherlands, although the quality of control is much lower. His trust in government institutions is very minimal.

"I do not trust the formal institutions. I could give examples but then we will be still busy tomorrow morning."

(subsidiary manager)

The design of the employee relations arrangement has been left to the local manager not only because of the regulative distance but also because of the differences in cognitive and normative institutions in the two countries. The owner-manager has no intention of automatically employing the parent company's employee relations arrangement as a blueprint for the company's foreign subsidiaries. Whether and to what extent parent company HRM practices are transferred depends on the size of the establishment, the length of time the subsidiary is part of Packing Co, and the local legislation. In principle, he believes that it is important that country managers can mould their own system; ultimately, they are best aware of how the employee relations arrangement best accommodates the host country's institutional environment.

"I think that the way we approach our employees here and in our subsidiaries should be comparable with due regard for cultural differences. We do not impose our way of working."

(owner-manager)

7.5.2 Institutional entrepreneurship and transfer results

Though the owner-manager leaves the design of the personnel policy, for the most part, to subsidiary managers, he attempts to induce subsidiary managers to employ the same ‘coaching’ management style as in the parent company. Within this framework, the owner-manager would prefer the parent company’s basis of employee relations to be mimicked abroad: an organisational climate emanating respect and appreciation of employees. He attempts to realise this by explaining how the parent company’s system functions in his discussions regarding this subject with subsidiary managers and by demonstrating the system’s functioning to subsidiary managers during their visits to the parent company.

“We give the example and we hope they think, hey, this is actually very nice and pleasant.”

(owner-manager)

However, the substantial degree of autonomy enjoyed by subsidiary managers precludes that any direct pressure can be exercised in order to achieve this. Notwithstanding, the owner-manager perceives that the situation in the Polish subsidiary is gradually improving. The local subsidiary manager, for example, has begun to mimic the parent company’s management style in which coaching employees is more dominant than supervising employees. Nonetheless, the parent company’s organisational climate has only partially been copied by the Polish subsidiary.

For his part, the subsidiary manager asserts that employees’ KSAs are an important source of competitive advantage.

“The core of the enterprise wisdom is that employees are the company’s most important asset. And that is completely correct because we are a trading company without machinery and specialist knowledge. I try to act on this principle.”

(subsidiary manager)

This necessitates taking employees’ needs and interests into consideration in the design of the employee relations arrangement. Consequently, overtime is always paid and employment security is advanced by providing employees with permanent contracts; wages are above the local market level; and the company provides ample opportunity to participate in courses for which the costs are compensated.

Participation in the form of information and consultation is limited. There are only minimal meetings with the entire workforce. Overall, communication does not occur in a structured manner.

"In Poland, there is less dialogue with employees than here, but this is changing for the positive."

(owner-manager)

In contrast, dependent on the nature of the job, there is considerable job discretion. The subsidiary manager positively appreciates taking initiative and making suggestions for improvement by employees. On the other hand, he has reservations about job discretion. At one time, he had installed tracking systems in the vehicles of the sales representatives to monitor their movements and activities; however, he later had them removed.

The subsidiary manager differentiates between various categories of employees. He is most at ease with male employees of approximately the same age with a similar background. He seems to be struggling with managing female employees.

"The relationship between the salesmen is rather informal. In the evening, we have informal meetings which strengthen the mutual relationship. But if there was a woman present, things might be different. In the office, I am the only man, and I don't think the ladies would discuss their private affairs with me."

(subsidiary manager)

Other HR practices are employed only minimally. There are no formal performance appraisals, although employees are annually evaluated either collectively or during an individual discussion with the subsidiary manager. There are also no formal grievance procedures. The subsidiary manager expects employees to address him in the event of grievances. With regard to work-life balance issues, if employees have issues due to personal circumstances and need to combine their working and private lives, they can appeal to the company. Finally, there is a once per year company outing during the Christmas holiday.

The foregoing arguments suggest that the employee relations arrangement at Packing Co's Polish subsidiary as designed and practised by the local manager can best be described as soft HRM and almost employee-oriented CSR. This is based on

perceived strong employee power despite the lack of union support and the medium level of other-regarding values of the subsidiary manager. However, despite recognition of the criticality of employees' KSAs for subsidiary performance, there is little utilisation of advanced practices to develop and exploit these KSAs.

7.5.3 Employee perceptions

7.5.3.1 *Management's other-regarding values*

The interviewed Polish employees could not assess the owner-manager's other-regarding values since the owner-manager rarely frequents the Polish subsidiary. This automatically implies that only the perceived level of other-regarding values of the subsidiary manager is relevant to the analysis of the employee evaluation of the employee relations arrangement at Packing Co Poland.

Table 7.16 Perceived other-regarding values of management at Packing Co PL

	N	mean	lower quartile	median	upper quartile
blue-collar	0				
white-collar	5	3.29	3.00	3.00	3.78
all employees	5	3.29	3.00	3.00	3.78

Table 7.16 demonstrates that the responding employees rate management's level of other-regarding values as average which is much lower than the rating parent company employees assign to the owner-manager's level of other-regarding values.

7.5.3.2 *Union power*

The signalled lack of union power is also evident from the results of the questionnaire. None of the employees indicates being a union member and express themselves in a (mostly) neutral way with regard to management's position towards unions, union influence within the company, and the relevance of unions for the protection of employee rights in general (see Tables A11.1 and A11.2).

7.5.3.3 Organisational climate

The interviewed employees' evaluation of the subsidiary's organisational climate is mixed.

'Polish firms are different than this company. Here, I am appreciated by management. They make no difference between office personnel and warehouse employees. There will be a difference, but I don't feel it.'

(employee 1)

'We don't get much to hear from our employer. We are thanked at some special occasions. But I don't think the manager cares about my well-being.'

(employee 2)

Table 7.17 suggests that this divergent assessment of the organisational climate may be associated with the different treatment of men and women by the subsidiary manager. For example, female employees convey a much more negative opinion about the quality of communication and voice opportunities within the subsidiary than their male colleagues. This causes the organisational climate to be rated, overall as, average – the men judge positively while the women experience the organisational climate as barely average. The relationship between management and the workforce is the most positive rated aspect of the organisational climate. Voice opportunities in the framework of employee involvement are rated as average. Management response to disagreement with decisions is mostly believed to be reasonable or neutral. The managing of grievances by management is judged neutral to favourably by white-collar employees but – surprisingly, in the light of their other responses – unfavourably by blue-collar employees (see Table A11.3).

The interviewed employees observe that participation and communication are limited and believe this may be due to the subsidiary manager's fear of losing control. They also indicate that hierarchical status does not play a role but

Table 7.17a Employee assessment organisational climate and its underlying aspects at Packing PL

construct	category	gender	N	mean	lower quart.	median	upper quart.
organisational climate	blue-collar	female	0				
		male	2	4.06	4.06	4.06	4.06
	white-collar	female	4	2.80	2.53	2.69	3.06
		male	1	3.81	3.81	3.81	3.81
	all employees	female	4	2.80	2.53	2.69	3.06
		male	3	3.98	3.81	4.06	4.06
		total	7	3.30	2.63	3.38	4.06
free use of voice blue-collar	blue-collar	female	0				
		male	2	4.00	4.00	4.00	4.00
	white-collar	female	5	2.92	2.60	3.00	3.00
		male	1	3.80	3.80	3.80	3.80
	all employees	female	5	2.92	2.60	3.00	3.00
		male	3	3.93	3.80	4.00	4.00
		total	8	3.30	2.80	3.30	3.90

quart. = quartile

Table 7.17b Employee assessment organisational climate and its underlying aspects at Packing PL

construct	category	gender	N	mean	lower quart.	median	upper quart.
transparency	blue-collar	female	0				
		male	2	3.80	3.80	3.80	3.80
	white-collar	female	5	2.04	1.40	2.20	2.60
		male	1	3.60	3.60	3.60	3.60
	all employees	female	5	2.04	1.40	2.20	2.60
		male	3	3.73	3.60	3.80	3.80
		total	8	2.68	1.80	2.80	3.70
relational atmosphere	blue-collar	female	0				
		male	2	4.33	4.33	4.33	4.33
	white-collar	female	4	3.54	3.17	3.50	3.92
		male	1	4.00	4.00	4.00	4.00
	all employees	female	4	3.54	3.17	3.50	3.92
		male	3	4.22	4.00	4.33	4.33
		total	7	3.83	3.17	4.00	4.33

quart. = quartile

“You can have a good talk with the manager, but we hardly have meetings with the entire workforce. As colleagues, we address each other by our first name; we only use ‘mister’ when addressing the manager.”

(employee 1)

In this aspect, it is interesting that subsidiary employees notice a significant distance between Poland and the Netherlands:

“Our Polish mentality is very different from the Dutch one. I have been in Holland, and I noticed the difference between our and the Dutch approach. In Holland, people are more open and honest, they do not have bad intentions, I like that.”

(employee 2)

Furthermore, various perspectives regarding communication can be observed.

“People can contact me, also when I am not at the office. When I am not in, it doesn’t mean that I am not busy. In these modern times, we have e-mail and telephone.”

(subsidiary manager)

“The boss does want to pick up suggestions for improvement [of the atmosphere, jdj] but, lately, he is often out of office. And e-mail does not work in these matters. That has to be done through personal communication. But I think someone like him does not have enough time to discuss all these matters.”

(employee 2)

7.5.3.4 HR practices

As is apparent from Table 7.18, employees rate overall HRM policy as average. The interviewed employees indicate that transparency with regard to which courses are facilitated is relatively low. This is also apparent in the transparency of grievance procedures. Lack of transparency may explain the relatively low assessment by the respondents for courses and training.

Table 7.18 Employee assessment overall HRM policy and individual HR practices at Packing Co PL

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	1	3.77	3.77	3.77	3.77
	white-collar	6	3.20	2.64	3.41	3.50
	all employees	7	3.28	2.64	3.45	3.77
courses and training	blue-collar	2	3.60	3.60	3.60	3.60
	white-collar	6	2.57	1.40	2.80	3.60
	all employees	8	2.82	2.00	3.30	3.60
working conditions	blue-collar	2	3.67	3.67	3.67	3.67
	white-collar	6	3.17	2.67	3.17	4.00
	all employees	8	3.29	2.83	3.50	3.83
job discretion	blue-collar	2	4.00	4.00	4.00	4.00
	white-collar	6	3.50	3.25	3.50	3.75
	all employees	8	3.63	3.38	3.63	4.00
work-life balance	blue-collar	2	3.00	3.00	3.00	3.00
	white-collar	6	3.22	2.67	3.17	3.67
	all employees	8	3.17	2.83	3.00	3.50
pay	blue-collar	2	4.25	4.25	4.25	4.25
	white-collar	6	3.58	2.75	4.00	4.25
	all employees	8	3.75	3.25	4.25	4.25
internal labour market	blue-collar	1	4.00	4.00	4.00	4.00
	white-collar	6	3.33	3.00	3.33	4.00
	all employees	7	3.43	3.00	3.67	4.00

quart. = quartile

“Matters such as courses and a grievance procedure should be more transparent for employees. Then my commitment to the company would be even bigger.”

(employee 1)

The company, however, does pay attention to work-life balance issues. Both interviewed employees stated that the company will assist in the event of issues at home.

“In case of problems at home, the company would help. That is quite a difference compared to my last employer.”

(employee 1)

Respondents rate the work-life balance opportunities of the company as average. Pay and job discretion are rated as good. The interviewed employees perceive their compensation to be above the local market level. Subsidiary employees confirm that they receive their share in profit distribution for personnel.

“I am quite satisfied with my wage; I have never been paid such a high wage.”

(employee 1)

7.5.3.5 Employee outcomes

In Table 7.19, the overall employee outcomes are assessed as good which implies that the subsidiary, in its employee relations arrangement, provides for employee needs and interests. The interviewed employees feel secure with regard to their employment while they believe the level of work-related stress is quite acceptable.

“To be honest, I am not afraid to lose my job. Here, you don’t have to fear that like in other companies.”

(employee 2)

Though job satisfaction is marginally high, it is probably reduced because of the apparent tensions within the organisation as overtly evidenced in the analysis of the organisational climate.

Table 7.19 Assessment employee outcomes at Packing Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee out-comes	blue-collar	1	3.62	3.62	3.62	3.62
	white-collar	4	3.71	3.35	3.73	4.08
	all employees	5	3.69	3.54	3.62	3.92
job satisfaction	blue-collar	1	3.67	3.67	3.67	3.67
	white-collar	4	3.58	3.17	3.33	4.00
	all employees	5	3.60	3.33	3.33	3.67
employment se-curity	blue-collar	2	3.50	3.50	3.50	3.50
	white-collar	5	3.80	3.50	3.75	4.00
	all employees	7	3.71	3.50	3.50	4.00
work-related stress	blue-collar	2	3.67	3.67	3.67	3.67
	white-collar	6	3.50	3.33	3.67	4.00
	all employees	8	3.54	3.50	3.67	3.83

quart. = quartile

7.5.3.5 Employee relations arrangement overall

Overall, and in sharp contrast with the employee assessment in the parent company, in the perception of Packing Co Poland's employees, the employee relations arrangement can best be described in HRM-based terms. This is commensurate with the perceived average level of other-regarding values of management and the differentiation in assessment of HR practices along the dividing line of whether they provide predominantly for the company or for employee needs. Finally, the relatively high extent to which the employee relations arrangement provides for the essential employee needs and interests of having pleasant work that is secure and that can be accomplished within the assigned timeframe and with the assigned means is also indicative of HR practices to meet employee needs.

7.5.4 Employee performance

Employee efforts, initiatives, and suggestions have saved money for the company according to the subsidiary manager.

“The way employees are treated affects firm performance. For example, I often hear from customers that they appreciate our sales persons very much because of their good advice. The first effect seems that customers buy less, but the relationship has become much more durable and, on balance, you sell more. Our logistic employee came up with an idea through which we could save a lot on our transport costs.”

(subsidiary manager)

Sales have increased since sales representatives began behaving more as problem-solvers for customers instead of being focused on sales alone. Employees are willing to put forth the extra effort if the situation demands so. Finally, turnover and absenteeism are low. These results are in accordance with the high level of commitment reported in Table 7.20. The high level of commitment itself, however, is unexpected as it seems incongruent with employees’ appreciation of Packing Co’s organisational climate as well as their rating of the HRM policy and their assessment of employee outcomes. This may be due to aspects in the employee relations arrangements that are insufficiently captured in the constructs concerned. The interviewed employees indicate that a higher wage elsewhere is an insufficient reason to leave the company which indicates a relatively high commitment.

Table 7.20 Employee commitment at Packing Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	1	4.00	4.00	4.00	4.00
	white-collar	5	4.15	4.00	4.00	4.25
	all employees	6	4.13	4.00	4.00	4.25

quart. = quartile

7.6 RUBBER CO

7.6.1 Transfer intent and institutional distance

The owner-manager perceives the institutional distance to Poland to be quite substantial in terms of cognitive and normative institutions. The significant role of hierarchical status in companies is an especially large obstacle for an open organisational climate to which employees contribute freely. In Poland, the distance between management and the workforce is too cumbersome to enable interaction on an equal basis. Consequently, employees do not dare to ask questions for fear of appearing incapable of fulfilling their jobs.

"You have, of course, the mentality there that the boss determines. [...] I observed it when people were in training here. In the beginning, they did not dare to say that they did not understand something. [...] You know, in the Netherlands when we do not understand something, then you say: what do you mean? In Poland the mentality is such that if you say: I do not understand it, you look stupid. So then you are not capable. And if you are not capable, you get fired."

(owner-manager)

Another effect is that people do not take responsibility and initiative which results in delays and an unduly high exploitation of management's time. Additionally, the owner-manager observes that his knowledge of the nature and possible approach of institutional differences is limited. In his perception, such knowledge can only be acquired by means of frequent local presence.

"I try to discuss this [with the subsidiary managers, jdj] but the point is, you don't know what is going on inside. We go there once or twice a year for a day or two, [...], so that is quite short. Employees would say nothing because the manager is a nice man and because it would imply a breach of confidence with the manager. If we want to interfere with personnel policies, we would have to go there more often."

(owner-manager)

The owner-manager also assesses the regulative distance between Poland and the Netherlands as great but perceives addressing this as less problematic since

knowledge of the nature and possible approach of regulative differences is much more accessible than that of cognitive and normative differences. Although the scope of labour legislation and regulation is less extensive than in the Netherlands, the interpretation of legal rules in Poland is much more stringent than in the Netherlands. This is reflected in the population's image of and attitude towards government and its institutions. As stated by the subsidiary manager:

"Based on my experiences, I can say that the approach in the Netherlands is more frivolous in relations with the administration. We are more afraid of actions of the control institutions than the Dutch. However, when Dutch people have some problems with those institutions, they panic more than us. [...] we try more to protect our own "ass", it means we prepare things better in case of control, because we know what communism did. We still believe that government and institutions can do everything, the Dutch don't."

(subsidiary manager)

The owner-manager claims to feel the same responsibility towards employees in the Polish subsidiary as he does to home-country employees. Design and execution of the employee relations arrangement are, however, left completely to local subsidiary management. Only in the long run does he intend to transfer those HR practices to Poland that have proven successful in the parent company. For parent company management, the only assessment criterion of subsidiary performance is supply of high-quality products at competitive prices according to ISO standards. In this assessment, personnel policy only plays a part insofar that the company must comply with ISO standards on health and safety conditions.

"Poland is managed autonomously, so they have their own personnel policy. I think good workplace conditions important. For example, we go there with business relations and then I think that the conditions regarding safety must be equal to here."

(owner-manager)

Because of this requirement, the subsidiary has recently been renovated to improve health and safety conditions. Overall, this suggests dominance of economic rationality in his view regarding subsidiary employees.

7.6.2 Institutional entrepreneurship and transfer results

The owner-manager interferes only minimally with personnel policy in the Polish subsidiary though he requested for flexibility with the workforce. This implies institutional entrepreneurship is only a minute issue in this aspect. The high level of subsidiary autonomy combined with the local management's substantial minority share of 49% explain why the interviewed employees are hardly aware of the fact that their company is a component of a foreign company. It also implies that employees' recognition as stakeholders of the firm is dependent upon the Polish shareholder's value orientation and upon the relevance of their KSAs as well as the strength of unions. Both the shareholder's level of other-regarding values and the power of production workers, in particular, are low. The subsidiary manager does not base his personnel policy explicitly on employees' needs and interests but on those of the company.

"I am not in favour of close relationships between employer and employees. Every one of us has his own mission and tasks, that's why we come together. The only thing I require is that my workers complete these tasks."

(subsidiary manager)

This suggests employees are not considered as legitimate stakeholders. Neither are they perceived as powerful; the power of production workers based on their KSAs is low. The production labour is of a low-skilled nature which makes employees relatively easily replaceable. There is no union presence within the company which reduces employee power even further. With regard to the different attitude of the Polish subsidiary compared to the Dutch parent company, the subsidiary manager states:

"I see it in this way that, in the Netherlands, mainly because of the size of the company, the managers do not deal with the details of daily operations in the company. In contrast, in Poland, precisely because of the size of the company, certain decisions, for instance financial, such as purchasing something, are not delegated to so low a level as in the Netherlands. And when a failure of machinery or some other problem happens over there, the boss comes, sees, and says 'repair it some way' and here, due to the fact of the three times smaller size of the company, two managers ensure that this is truly well fixed, because this is not the standard action, here the personnel weren't trained for."

The lack of stakeholdership recognition is reflected in the subsidiary's organisational climate. Of utter importance is that it does not encourage the use of voice: employees must just do as they are directed. There is only little informal participation. Employee suggestions for performance improvements are only to a certain degree appreciated by management; in fact, taking initiative is not perceived as important for firm performance. Communication is limited to issues in which employees are directly involved.

“When something important happens in the company, we need to inform them. It is better than that they get knowledge about it from other sources, gossip, for example.”

(subsidiary manager)

Offering employment security is not a priority for management. Consequently, there is no policy for increasing employment security, for example, by means of improving employability of employees through functional flexibility. However, labour contracts are in compliance with the law. Furthermore, employees are appointed with the prospect of a permanent contract.

The various employee categories are not considered to be equally important to the firm. Production workers are perceived as expendable. Consequently, management views the employment relationship as a purely economic exchange; employees execute their contractual obligations in exchange for the agreed-upon wage. Office staff is perceived to be more important for firm performance and, therefore, receive better treatment than production workers. For instance, company outings are predominantly organised for office employees and management. Still, subsidiary management considers relations with employees to be good.

HR practices are not formalised and, thus, their application is non-transparent for employees. Wages are negotiated in individual bargaining agreements as is common in Polish SMEs. Pay rates seem to be comparable to the regional average; basis pay can be complemented by a performance-related bonus. For Christmas, the company pays an amount from their social fund to employees as a type of Christmas benefit. Office personnel receives a fixed monthly wage while production workers are paid by the hour.

Training facilities also differ between office employees and production workers. Training for production workers is limited to on-the-job training for new hires. Office employees can take facilitated courses in the event these add value for the company. Employees can redress temporal problems in their work-life balance by reducing their work hours on the condition that these are subtracted from their regular number of days off or are compensated for at other times. Grievances are to be settled by line management. Furthermore, employees are allowed to use the firm's tools for their private endeavours.

The observations above suggest that the employee relations arrangement at Rubber Co's subsidiary should be divided into one for production workers and one for the office workers. Production workers have minimal power since their KSAs are not considered essential for firm performance and, consequently, do not need to be developed. Furthermore, there is no union presence to support their power. The power of office workers is greater since their KSAs are thought to affect firm performance and, therefore, must be developed to a certain extent. The subsidiary manager's level of other-regarding values may be indicated as relatively low. This signifies that the employee relations arrangement for production workers can be described as a low-wage system while the office workers seem to be covered by an HRM-based arrangement.

7.6.3 Employee perceptions

7.6.3.1 Management's other-regarding values

Table 7.21 Employee perception other-regarding values management at Rubber Co PL

	N	mean	lower quartile	median	upper quartile
blue-collar	9	2.65	2.33	2.67	3.33
white-collar	5	3.76	3.56	3.78	4.00
all employees	14	3.05	2.44	3.39	3.67

The interviewed employees suggest that employees are not considered as stakeholders except for those in higher functions. This is reflected in Table 7.21 by the significant discrepancy between blue-collar employees' perception of management's level of other-regarding values – which they believe to be barely average – and that of white-collar employees who perceive the level of other-regarding values of management to be high. This discrepancy is also evidenced from the appreciation of the organisational climate and its underlying aspects as presented in Table 7.22.

7.6.3.2 Union power

The interviewed employees indicate that unions are not present in the subsidiary and that they have no influence. This is confirmed by the results of the survey. None of the respondents indicates being a member of a union. The few respondents answering the items regarding union influence indicate that this influence is negligible and that management does not exhibit a positive position towards union membership. The other respondents may have considered it too risky to answer these items (see Tables A12.1 and 12.2).

7.6.3.3 Organisational climate

Employees' rating of the organisational climate is average. Blue-collar appreciation, however, is in the lower average spectrum while the white-collar rating is in the lower half of the positive range. The aspect appreciated most by both groups is the relationship with management. Communication within the company is the lowest assessed aspect which blue-collar employees even rate as poor. The interviewed employees state that management is willing to listen to suggestions that improve firm performance. However, participation is limited to issues directly impacting the employee's job. Company policy matters are not shared by management.

“Everything that has any impact on their work or satisfaction is being communicated to them constantly, while matters related to company policy or finance are not.”

(employee 2)

Table 7.22 Employee assessment organisational climate and its underlying aspects at Rubber Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
organisational climate	blue-collar	9	2.90	2.44	3.06	3.38
	white-collar	5	3.75	3.69	3.75	3.88
	all employees	14	3.20	2.88	3.41	3.75
free use of voice	blue-collar	9	3.07	2.60	3.20	3.40
	white-collar	5	3.92	4.00	4.00	4.00
	all employees	14	3.37	2.80	3.50	4.00
transparency	blue-collar	9	2.22	2.00	2.00	2.40
	white-collar	6	2.80	2.40	2.90	3.40
	all employees	15	2.45	2.00	2.40	3.00
relational atmosphere	blue-collar	9	3.31	2.50	3.50	4.00
	white-collar	6	4.25	4.17	4.42	4.50
	all employees	15	3.69	3.33	4.00	4.50

quart. = quartile

7.6.3.4 HR practices

Just as in the Netherlands, there is no formal grievance procedure. Employees must address their supervisor in the event of grievances.

“Actually, there has never been a specific tracking of complaints because it seems to me that it was not foreseen that someone would want to lodge a complaint.”

(employee 2)

Respondents react generally neutral with regard to the way management handles grievances or responds to disagreement with decisions (see Table A12.3).

Courses and training are feasible on the initiative of management; employee initiative in this regard is not common.

“Honestly speaking, you would not ask your boss for that.”

(employee 1)

Courses and training must complement company interests whereby the costs are fully compensated. Personal development, however, is not deemed important and schooling opportunities are only offered to office workers.

“In the production area, there are no such efforts being made [with regard to education facilities], and in the administrative area that also doesn't happen extensively. There is the English language course though, so the administrative employees have the possibility in practising it.”

(employee 2)

As is evident from Table 7.23, this is not clearly confirmed in blue-collar appreciation of courses and training which is average and is only a bit below white-collar rating. Blue-collar employees even endorsed, at just under 50%, to a much greater degree than white-collar employees, with no one, the statement that management believes courses and training for employees as important.

The interviewed employees confirm that management's intention is to fill vacancies in higher positions with internal candidates. Table 7.23 demonstrates that this appears to be confirmed by the respondents with an average to good rating of career opportunities within the company.

The interviewed office employees agree that they have significant job discretion. In Table 7.23, this experience is shared by the white-collar respondents and – to a lower degree – by blue-collar respondents.

“The deal is that there is work that needs to be done, but when and how we do this is up to us. Of course, it has to be done in time but the employer is not looking over our shoulder.”

(employee 1)

Table 7.23 Employee assessment of overall HRM policy and individual HR practices at Rubber Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
HR practices	blue-collar	7	3.06	2.82	2.95	3.36
	white-collar	5	3.58	3.36	3.59	3.73
	all employees	12	3.28	2.91	3.36	3.57
courses and training	blue-collar	8	3.20	2.60	3.00	3.60
	white-collar	5	3.56	3.60	3.60	3.80
	all employees	13	3.34	2.80	3.20	3.80
working conditions	blue-collar	9	3.26	2.67	3.33	3.67
	white-collar	5	4.28	4.00	4.17	4.33
	all employees	16	3.67	3.00	4.00	4.33
job discretion	blue-collar	9	3.39	3.00	3.25	3.75
	white-collar	5	3.79	3.50	3.88	4.00
	all employees	16	3.55	3.00	3.75	4.00
work-life balance	blue-collar	8	2.71	2.67	2.83	3.00
	white-collar	5	3.53	3.33	3.67	3.67
	all employees	13	3.03	2.67	3.00	3.33
pay	blue-collar	8	2.50	2.00	2.50	3.00
	white-collar	6	3.42	2.75	3.63	4.00
	all employees	14	2.89	2.50	2.88	3.25
internal labour market	blue-collar	9	3.30	3.00	3.33	3.67
	white-collar	5	3.53	3.33	3.33	3.67
	all employees	14	3.38	3.33	3.33	3.67

quart. = quartile

Pay is deemed average by white-collar employees while blue-collar employees rate their pay as being on the margin of low and average.

Hierarchical status plays a role but particularly in relationship to top management since the organisation structure is rather flat. Blue-collar opinion appears to be different in this aspect. Approximately half believes that management is difficult to approach, and the company is managed more hierarchically than other companies. This is rather surprising considering the positive blue-collar assessment of relationships with management. Remarkably, the large majority of blue-collar employees prefer working for a West-European company to working for a Polish company while, for white-collar employees, this preference is exactly the opposite (see Table A12.4).

Additionally, as is also evident from Table A12.4, all colleagues address one another by their first names, except top management.

7.6.3.5 *Employee outcomes*

Table 7.24 Employee outcomes employee relations arrangement Rubber Co PL

construct	Category	N	mean	lower quart.	median	upper quart.
employee outcomes	blue-collar	7	2.86	2.08	2.85	3.62
	white-collar	6	3.88	3.69	3.85	4.08
	all employees	13	3.33	2.85	3.62	3.92
job satisfaction	blue-collar	7	2.19	1.17	1.50	3.50
	white-collar	6	3.92	3.67	4.00	4.17
	all employees	13	2.99	1.50	3.50	4.00
employment security	blue-collar	9	3.61	3.25	3.50	4.00
	white-collar	6	4.08	4.00	4.00	4.25
	all employees	15	3.80	3.50	4.00	4.25
work-related stress	blue-collar	9	3.04	2.67	3.00	3.33
	white-collar	6	3.56	3.00	3.33	4.00
	all employees	15	3.24	2.67	3.00	3.67

quart. = quartile

Entirely in accordance with the trend noticed in employees' assessment of the other-regarding values of management, the organisational climate and, to a lesser degree, the HRM policy, appreciation of the degree to which employee outcomes correspond with their needs and interests widely diverges between blue-collar and white-collar employees as is demonstrated in Table 7.24. This pertains to job satisfaction, in particular, which is rated as high by white-collar employees but low by their blue-collar counterparts. Employment security, however, is rated as good by both groups. According to the interviewed employees, in principle, employees receive a permanent contract in due time, although a difference is being made between production and office employees. Finally, the level of work-related stress is rated as acceptable by blue-collar employees and as acceptable to low by white-collar employees.

7.6.3.6 Employee relations arrangement overall

Overall, Rubber Co Poland appears to have two employee relations arrangements, i.e., one for blue-collar workers and one for white-collar workers. Based on their perceived relatively low level of other-regarding values of management and their average assessment of organisational climate, HRM policy and employee outcomes, the employee relations arrangement appears to possess a low-wage character in the perception of the blue-collar employees. According to the same indicators, white-collar employees appear to typify their employee relations regime as HRM-based.

7.6.4 Employee performance

Subsidiary management maintains that employee KSAs and commitment only minimally affect firm outcomes. The interviewed employees indicate that turnover among production employees is high.

"In the last 2 to 3 years, about 200 employees passed through our plant, whereas currently we employ 40-60 people. So, this fluctuation is very high."

(employee 2)

In examining blue-collar assessment of employee outcomes and pay, a high turnover rate is to be expected. However, the average level of commitment as reported in Table 7.25 is difficult to reconcile with a high turnover intention. On the other hand, for both groups of employees, the level of reported commitment is higher than might have been expected with regard to the other indicators of the employee relations arrangement. Management's assertion that employee commitment only minimally affects firm performance raises the question whether reported commitment adequately reflects actual commitment.

Table 7.25 Employee commitment at Rubber Co PL

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	9	3.28	2.75	3.50	3.50
	white-collar	6	4.17	4.00	4.00	4.25
	all employees	15	3.63	3.25	3.75	4.25

quart. = quartile

7.7 HARVEST CO

7.7.1 Legitimacy employees as stakeholders

Harvest Co's owner-manager appears to consider his employees as stakeholders based on an instrumental approach. Employees are rated as the third most significant stakeholder group after customers and local government and not so much based on their legitimacy as on their power. Nonetheless,

"I think an employer should be considerably committed to his employees and should regularly meet them. [...] Now I am 45-50% of my time here [Estonia, jdj]. If you are sufficiently present, you also have commitment and you know exactly what is going on."

(owner-manager)

In his opinion, management commitment to employees is necessary for generating employee commitment to the company. In this respect, the owner-manager indicates proceeding beyond the law regarding the employment terms of the workforce.

"I think we are a better employer in the region than the rest. And I think you can conclude this to be the case because there are always people who would like to work for us. So you can easier find people than others."

(owner-manager)

7.7.2 Employee power

The owner-manager deems employee KSAs essential for delivering a high-quality product; increasing employee commitment and taking their needs and interests into consideration assists in motivating employees to act in the company's best interests in this respect. Employees must possess extensive experience to be able to produce a qualitatively good product.

"Peat moss production is seasonal work and, in each season, you have different work. In summer you do production. Thereafter, you prepare the terrain for the following production season. During the winter, product is supplied to clients. Then employees have to clear the snow, break ice, load lorries, and in between they try to open up new terrain. So seasons differ completely. And one needs to have experienced a season a few times before one can fully collaborate."

(owner-manager)

To attract the most productive employees, the employer explicitly strives for being the region's best employer. The local manager specifies being a good employer this way.

"When we can spend time together in a party and when they get salary at the right time, because quite a lot of companies have problems doing this."

(local manager)

The instrumental power of employees is not supported by the presence of trade unions. According to the local manager, there are no unions active in the region. However, government legislation and enforcement is perceived to support employee power:

“Labour legislation is comparable to the Netherlands. It is very strict, until recently you could not even fire employees. [...] There is plenty of inspection here, on all sorts of things.”

(owner-manager)

7.7.3 Institutional distance and transfer intent

In general, the owner-manager perceives the cognitive and institutional distance between the Netherlands and Estonia as a significant obstacle to introducing an employee relations arrangement according to his standards which are based on his home country institutional environment. The institutional distance is exacerbated by the language barrier which creates a dependency on the interpreter services of the local subsidiary manager. He speaks some Estonian, however, it is not sufficient to be able to arrange all personnel affairs himself. At first, he hired an older local manager because of the man's experience, but he managed the company in the old authoritarian way. For this reason, the owner-manager soon switched to a much younger local manager. Regulative distance is low as labour legislation and regulation is quite similar to the Netherlands. Control with compliance, however, is different. Control is extensive but significantly directed at observing the rules in a very stringent manner. According to the local manager, there are regular visits by the labour inspection.

With regard to cognitive and institutional distance, an important difference with the Netherlands is employees' willingness to take initiative. Traditionally, this is not common in Estonia and, consequently, employees are unfamiliar with taking initiative.

“If you have the right people, you can give them some autonomy, but you will have to check up on them to see what exactly happens. Because there also happen very odd things, such, that you think ‘how is this possible?’”

(owner-manager)

The local manager maintains close supervision with employees. According to her, even though employees know what to do, it is still important to explain their required activities again. This attitude of not taking initiative is strengthened by the role of hierarchical status which is said to be much greater than in the Netherlands. For management, it is uncommon to work along with their staff.

“In the beginning they were gaping, an owner-manager who puts his boots on, goes into the bog himself, knows the machinery and locates each remote corner of the terrain. That was not possible because a manager does not work.”

(owner-manager)

7.7.4 Institutional entrepreneurship and transfer results

The owner-manager claims to have addressed the institutional constraints in the organisational environment sufficiently to have been able to design an employee relations arrangement in accordance with what he believes to be desirable. This he asserts to be associated with his frequent presence in the Estonian subsidiary which makes it more viable for him to impress his influence on personnel policies and practices. For example, employees are aware that he has genuine insight in their activities which incites them to work more accurately. The owner-manager strives for an organisational climate characterised by a feeling of economic security among employees, use of voice, and a good relational atmosphere. In that aspect, he hopes to create employee commitment to the company. Nonetheless, certain mistrust seems to filter through as evidenced by his emphasis on the importance that employees perceive it to be difficult to cheat on him.

“Commitment to the company you create by being present very regularly [...] and by rolling your sleeves up yourself. Employees then know that you notice everything that happens.”

(owner-manager)

Still, the above implies that Harvest Co's owner-manager fulfilled a number of conditions for institutional entrepreneurship as set by Phillips (2009) and Battilana and colleagues (2009) primarily by employing power of meaning (Ferner *et al.*,

2012). First, he demonstrates an understanding of the nature and effect of institutional differences between Estonia and the Netherlands. Second, he emphasises the perceived deficiency of normative and cognitive institutions to the subsidiary workforce. Third, he initiates institutional change by describing the nature of the organisational climate he is striving for. Finally, he undertakes efforts in implementing the desired institutional change by setting an example through his behaviour toward both subsidiary management and subsidiary employees.

According to the local manager, foreign companies have a positive image as employers which is particularly related to the relatively high wages they pay. Thus, such as at Paint Co, the company's foreignness is believed to be an asset rather than a liability. Consequently, it is relatively easy for Harvest Co to recruit employees. This is supported by the owner-manager's intention to provide employees maximum employment security along with the fact that wages are always paid on time.

Considering the employment and pay security, however, is not so much based on the owner-manager's other-regarding values as on employees' instrumental power. First, providing employment security increases employee commitment to the company which is perceived as necessary for achieving the required product quality. Second, it takes a significant amount of time before new workers have sufficiently mastered all of the various aspects of their job and are capable of delivering the required product quality.

The owner-manager asserts that most personnel practices have been designed and are employed in a manner that proceeds beyond legal prescriptions. Pay and employment security are significantly above the regional average. Wages are paid per hour which creates flexibility of working hours over the year. During the production season, employees may work more hours than legally allowed. The hours in excess of the maximum are partially compensated to the working hours during the winter season in which employees receive their full pay for shorter working days. Another portion is paid in the form of a bonus.

"Sometimes, other firms can pay more, but these say after the production season 'lads come back next year in April'. [...] We do not pay the highest wages [during the production season, jdj]. But we do, if you look at it over the whole year."

(owner-manager)

For vacancies above entry level, the company actively seeks for potential internal candidates. Employees may also individually indicate that they prefer to apply for another position.

If additional courses and training are necessary to achieve the level required for the position, the employee is then facilitated to do this. Employees also have the opportunity to take additional on-the-job training or to participate in external courses to improve their knowledge and skills.

Employees are involved in a yearly formal performance interview. The owner-manager has introduced performance interviews to improve knowledge about what is occurring among employees, to make people aware of new ideas and courses relevant to employees' jobs, and to stimulate them to indicate and act upon their future ambitions. These interviews are difficult to conduct, however, because of the low educational level of employees. There is no formal grievance procedure; employees are expected to settle their grievances with the local manager. They have no recourse to external parties in this respect. The owner-manager takes no part in addressing grievances because of the language barrier. With regard to possible employee problems when combining their work and private lives, the owner-manager attempts flexibility. Working hours may be temporarily reduced without consequences toward employees' regular days off.

Communication regarding firm performance does not appear to proceed beyond what is prescribed by law. To accomplish this, once or twice a year, a staff meeting is convened of which a written report is created. Employees, in this context, are informed about the company's production and investment plans for the upcoming period and also about pay rises. Communication during these meetings seems to have a predominantly one-way characteristic. Direct participation is present in the form of job discretion; the level of job discretion is high. Furthermore, formulating suggestions is actively encouraged with material rewards.

"Personnel meetings are appreciated positively by 80% of the workforce. And I think these 80% are the better employees and they know what it is all about."

(owner-manager)

The company's employee relations arrangement can be characterised as being based on a medium level of other-regarding values combined with relatively high

employee power. The owner-manager utilises various types of practices to develop employees' KSAs and to create commitment to the company. He believes that way is the best in order to be able to profit to the fullest of the workforce potential. However, employees' power is based more on experience than on knowledge and education. Combined with the language barrier, this facilitates a paternalist management style. Therefore, the employee relations arrangement can best be described in terms of HRM with definite paternalist overtones.

7.7.5 Employee perceptions

7.7.5.1 Management's other-regarding values

As is evident from Table 7.26, blue-collar employees perceive management's level of other-regarding values as average while white-collar employees perceive a high level of other-regarding values. The relatively low appreciation by blue-collar employees may be related to the rather instrumental view of the owner-manager about employees as stakeholders which is based on self-regarding values and the language barrier that hampers mutual communication.

Table 7.26 Employee perception other-regarding values management Harvest Co

	N	mean	lower quartile	median	upper quartile
blue-collar	5	2.96	3.00	3.00	3.22
white-collar	5	3.69	3.22	3.67	3.67
all employees	10	3.32	3.00	3.22	3.67

7.7.5.2 Union power

None of the respondents indicates being a union member. Furthermore, they indicate that union influence in the company is minimal, though half believes unions are important for the protection of employee rights. Respondents express themselves neutrally about management's position towards union membership (see Tables A13.1 and A13.2).

7.7.5.3 Organisational climate

Table 7.27 demonstrates that blue-collar employees' and white-collar employees' assessments of the organisational climate and the underlying aspects are quite comparable. According to respondents, the overall organisational climate is average to good. Blue-collar employees assess the organisational climate more positively than management's other-regarding values while these assessments for white-collar employees are more or less equal.

Table 7.27 Employee assessment organisational climate and its underlying aspects at Harvest Co

construct	category	N	mean	lower quart.	medi-an	upper quart.
organisational climate	blue-collar	5	3.40	3.19	3.44	3.63
	white-collar	5	3.54	3.31	3.38	3.81
	all employees	10	3.47	3.19	3.41	3.75
free use of voice	blue-collar	6	3.07	2.80	2.90	3.20
	white-collar	5	3.56	3.20	3.20	3.80
	all employees	11	3.29	2.80	3.20	3.80
transparency	blue-collar	7	2.86	2.20	2.80	3.40
	white-collar	5	3.00	2.80	3.00	3.20
	all employees	12	2.92	2.40	2.90	3.40
relational atmosphere	blue-collar	6	3.81	3.83	3.83	3.83
	white-collar	5	3.97	3.50	4.00	4.17
	all employees	11	3.88	3.50	3.83	4.00

quart. = quartile

Both groups greatly appreciate the relationship with management and rate transparency lowest of the underlying aspects. Finally, it appears that blue-collar workers perceive less voice opportunity than white-collar employees. Voice opportunities in relationship to grievances are assessed neutrally by a significant majority of 78% while the others positively assess grievance management. Management response to disagreement with management decisions is perceived by two thirds to be reasonable (see Table A13.3).

7.7.5.4 *HR practices*

Just as in the case of the organisational climate, blue-collar and white-collar assessment of the company's overall HRM policy and individual HR practices diverge little as exhibited in Table 7.28. The evaluation of blue-collar workers is much less favourable than that of their white-collar counterparts only with regard to work-life balance opportunities and in-company career perspectives. The overall assessment of Harvest Co's HRM policy is average just as with the assessment of most individual practices. The level of job discretion – rated as good – is the most positively assessed practice by both groups. White-collar employees, however, assess the working of the internal labour market equally positively. Pay is rated most negatively as barely average which is in direct contrast with the owner-manager's assessment. Blue-collar employees rate only work-life balance more negatively.

7.7.5.5 *Employee outcomes*

As is apparent from Table 7.29, the overall assessment of employee outcomes is between average and good and is more or less equal for white-collars and blue-collars. Blue-collar employees rate all individual outcomes similarly while white-collar employees rate job satisfaction lower than their employment security and experienced level of work-related stress. The interviewed employee indicates liking his job and to positively appreciate the company. However, he comments that alternative employment opportunities are rare in this region.

Table 7.28 Employee assessment overall HRM policy and individual HR practices at Harvest Co

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	4	3.07	2.80	3.07	3.34
	white-collar	4	3.23	3.14	3.32	3.32
	all employees	8	3.15	2.93	3.27	3.32
courses and training	blue-collar	5	3.28	3.20	3.40	3.40
	white-collar	4	3.30	3.00	3.20	3.60
	all employees	9	3.29	3.20	3.20	3.40
working conditions	blue-collar	8	3.13	2.50	3.33	3.67
	white-collar	5	3.33	3.00	3.33	3.33
	all employees	13	3.21	2.67	3.33	3.67
job discretion	blue-collar	7	3.79	3.50	3.75	4.00
	white-collar	5	3.75	3.25	3.50	4.00
	all employees	12	3.77	3.38	3.75	4.00
work-life balance	blue-collar	6	2.56	2.00	2.33	3.33
	white-collar	5	3.53	3.00	3.67	4.00
	all employees	11	3.00	2.00	3.00	3.67
Pay	blue-collar	6	2.83	2.00	3.13	3.25
	white-collar	5	2.80	2.25	3.00	3.25
	all employees	11	2.82	2.25	3.00	3.25
internal labour market	blue-collar	7	3.29	3.00	3.33	3.33
	white-collar	5	3.73	3.33	3.67	4.00
	all employees	12	3.47	3.00	3.33	3.83

quart. = quartile

Table 7.29 Assessment employee outcomes employee relations arrangement at Harvest Co

construct	category	N	mean	lower quart.	median	upper quart.
employee outcomes	blue-collar	6	3.36	3.00	3.42	3.69
	white-collar	4	3.52	3.38	3.46	3.65
	all employees	10	3.42	3.31	3.46	3.69
job satisfaction	blue-collar	6	3.36	3.17	3.33	3.67
	white-collar	4	3.21	2.58	3.58	3.83
	all employees	10	3.30	3.17	3.50	3.67
employment security	blue-collar	6	3.38	3.00	3.38	3.50
	white-collar	5	3.65	3.00	3.25	4.00
	all employees	11	3.50	3.00	3.25	4.00
work-related stress	blue-collar	7	3.38	2.67	3.33	4.00
	white-collar	5	3.60	3.00	4.00	4.00
	all employees	12	3.47	2.83	3.50	4.00

quart. = quartile

“I like my work , and it is hard to find work like this. And I am still here, so that means I like it.”

(employee)

Employee opinion regarding hierarchical distance within the company is mixed. On the one hand, half indicate that management at Harvest Co is less hierarchical than at domestic companies while the other half is neutral about this. On the other hand, almost one third of employees believe management is difficult to approach. Approximately 54% of employees – 80% of white-collar respondents and 37.5% of blue-collar – assert that employees would rather work for West European than for Estonian companies, thus confirming management’s statement in this respect (see Table A13.4).

7.7.5.6 *Employee relations arrangement overall*

In conclusion, in the perspectives of Harvest Co's employees, the company's employee relations arrangement corresponds most to an HRM-based arrangement on the margin of a low-wage system with some paternalistic elements. First, employees perceive management's level of other-regarding values as being average. Second, organisational climate and HRM policy are considered average; with the relatively high appreciation of the relationship between management and the workforce, this indicates a possibly paternalist element while the low pay appreciation indicates a low-wage system element. Finally, employee outcomes are rated as being on the margin of average and positive indicating that employee needs and interests are fulfilled to some extent. Especially employee needs and interests corresponding with those of the company such as employment security and job discretion/work-related stress are provided for.

7.7.6 *Employee performance*

For the owner-manager, a significant result of his employee relations arrangement is that it fosters autonomy and initiative among employees which significantly reduces the level of required supervision. In this aspect, he seems to succeed since employees rate the level of job discretion positively (see Table 7.28). Furthermore, autonomy and initiative enable employees to effectively exploit their superior knowledge and experience relative to management in deciding themselves whether the conditions for harvesting peat moss are favourable. This is very important for firm performance since product quality is dependent upon the conditions under which it is harvested.

The significance that the owner-manager attaches to employee commitment appears, to a certain extent, to materialise in employees' self-reported level of commitment as depicted in Table 7.30. Blue-collar employees indicate that their commitment is medium-high while white-collar employees rate their commitment somewhat higher as lower high. As in the other companies, commitment is surprisingly high if compared to employee assessment of perceived other-regarding values, the firm's organisational climate, and the overall HRM policy.

Table 7.30 Employee commitment at Harvest Co

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	6	3.58	3.25	3.63	4.00
	white-collar	4	3.81	3.63	3.88	4.00
	all employees	10	3.68	3.50	3.75	4.00

quart. = quartile

7.8 METAL CO

7.8.1 Legitimacy of employees as stakeholders

The owner-manager believes employees to be the firm's most important stakeholder group. This applies to both the parent company and the subsidiary. The fact that the parent company only comprises a sales office also implies that there has been not so much a transfer of (parts of) the parent company employee relations arrangement to the Polish subsidiary but rather that (parts of) the subsidiary employee relations arrangement have been designed by the owner-manager from his home country institutional background. This signifies that the owner-manager did not take employee relations arrangements that are common in Poland as a beginning point but, instead, arrangements that are common in the Netherlands. This is also acknowledged by the local subsidiary manager and the HRM officer. However, while acknowledging this, they also observe elements of institutional distance.

"I think that transfer of relaxation of relations [between employees and management, jdj] from the Netherlands to Poland is confronted with the problem of lack of respect and weakening discipline, [...]. Because in the Netherlands there is a different way of thinking, employees know what to do so that the company can earn money, [...] If we had not shaped that view for many years, the great majority of employees generally would not be interested in what they are doing."

(subsidiary manager)

"There are difficulties, but this is only a matter of time and work, you need to change the consciousness of workers, and the Dutch practices work."

(HRM officer)

"It is very often that the strategy comes directly from the owner, as in our case that the owner with his way of managing imposes management systems and relationships, but I do not think that this was an intentional strategic action, more cultural conditioning of the owner."

(subsidiary manager)

The company's website explicitly mentions employees' significance for the functioning of the company and, thus, acknowledges their stakeholdership: "Skilled and motivated employees are at the basis of a well-functioning company and high-quality production."

This opinion is not only based on instrumental employee power but also on the owner-manager's other-regarding values. Metal Co's owner-manager believes the company bears responsibility towards employees since they depend on the company for their livelihood.

"Besides, employees are dependent on you for their livelihood, and that creates responsibility."

(owner-manager)

Furthermore, people's work consumes a significant portion of their lives; this necessitates enabling employees to ascertain pleasure in their work. In this regard, the owner-manager does not differentiate between the various categories of employees.

In the perception of the owner-manager, the basis of the employee relations arrangement is formed by mutual trust and mutual investment in the employer-employee relationship. Mutual trust entails that employees may assume that he takes their needs and interests into consideration as much as possible in relationship to their situation at work and that he may assume that employees put forth effort to deliver quality work.

"Many other entrepreneurs look upon employees in the same way as upon machinery: you pay them for what they do. And that's it. But we realise that work is an important part of our employees' lives. And if

they do not like their work, the quality of their performance will decrease. So we want our employees to feel good because we think that our company can only profit from that."

(owner-manager)

Employees are legitimate stakeholders who, just like the shareholders, have a right to the company's proceeds.

7.8.2 Employee power

Management assesses employees' KSAs, motivation, and commitment as critical for maintaining and strengthening Metal Co's competitive position. Metal workers and welders must have the ability to determine how best to perform their work which is not an ability that everyone can manage. Technical draughtsmen must be capable of creating designs from client preferences that can be easily managed by the production departments. Good administrative and logistical staff is required to deal with orders in such a way that customers can rely on prompt product delivery according to the correct specifications. Employee knowledge and effort are this important because Metal Co does not have fully automated machinery; for every activity people are required.

"Ranking stakeholders is difficult because you just need a number of groups to continue your existence. But still I would put employees number one, because for the quality of your products you are dependent upon efforts and motivation of your workforce."

(owner-manager)

This instrumental employee power is not bolstered by trade union influence due to lack of union presence within the company. However, employee power is supported to a certain degree by government regulation. Poland has a rather extensive legislation regarding working conditions. Enforcement is strict, though observance, at times, must be accomplished through absurdity. On the other hand, regulation for temporary labour is quite flexible. Temporary contracts can be concluded for much longer periods than in the Netherlands while regulation on permanent contracts is more or less similar.

7.8.3 Institutional distance and transfer intent

All interviewees believe there is a significant difference in mentality between the Netherlands and Poland, in particular with regard to the role of differences in hierarchical status in the employment relations in Polish companies.

“Sure, it seems to me that in the Dutch model, the worker has more confidence in the employer than in Poland, because in Poland a lot of employees believe that the employer for sure wants to dupe, he earns millions and he gives only pennies, and I think that this is in the Dutch model better, probably it is the fault of our mentality.”

(subsidiary manager)

“The chairman of the Polish company is untouchable, he sits somewhere up there and nobody comes there, there must be an appointment for a specific time and you can talk only about what the chairman wants you to talk about, here it is different.”

(HRM officer)

Differences in hierarchical status form an enormous obstacle for open communication and forces employees to behave exactly as prescribed because taking initiative is not appreciated.

“People here are used that the boss prescribes exactly what to do. And they are used to it that initiative of your own is not appreciated by the boss.”

(owner-manager)

In contrast, the owner-manager claims that open communication and taking initiative are the foundations of the company's business processes. This is also communicated on the company's website: “Every single member of our staff is personally responsible for his/ her performance. This offers everyone the possibility to plan his/her tasks and become performance-oriented. Such a form of freedom at work results in increased motivation and is beneficial for all interested parties: employees benefit from their personal development, the company benefits from improved performance and customers benefit from satisfactory solutions. The most important events of the company's life are spread amongst employees in our company newsletter in which all news and changes occurring in the company are com-

municated across the board in a comprehensive way. As it often happens that the best ideas are raised by blue-collars, they also have the opportunity to present their ideas of how to improve the overall company performance.”

However, in Polish companies, employees – due to the hierarchical employment relations systems – are unconcerned about the consequences of their actions for the company. Mistrust between employees and employers is much more common in Poland than in the Netherlands because the one believes the other is being dishonest. That is why the Polish manager is hesitant about introducing freer and more informal employment relations within the company. He fears employees will abuse this affect-based (Lämsä & Pucetaite, 2006) or naïve (Crouch, 1993) trust and put forth less effort. Therefore, when recruiting new employees, mentality is one of the selection criteria.

7.8.4 Institutional entrepreneurship and transfer results

The owner-manager paid significant attention to creating an organisational climate characterised by transparency, a feeling of security, a good relational atmosphere and free use of voice since this would be most amenable to creating employee commitment to the company. Metal Co’s owner-manager considers normative and cognitive institutional constraints most urgent because these correspond to his envisaged way of operating. He claims – which is confirmed by the other interviewees – to have succeeded by investing extensive time and effort.

“From the start on, I gave employees the responsibility for the way they carried out their duties. To that end, it is important that people take their own decisions and show initiative. I have had to make continuous efforts to an enormous extent to get this managed.”

(owner-manager)

Means employed to this end were frequent personal contact with employees, promotion of employee development through courses and training, job discretion, and taking responsibility for employees. In addition, he attempted to change the conventional image of a manager by putting his shoulder to the wheel.

"In general, there was initially a problem, I remember those times when, for example, the chairman wrung his hands that we were not able to transfer this management system. For the first few years, he was pissed off on the staff, the people and so on, until later he began to understand that here it is different and he needs different approaches to these workers."

(subsidiary manager)

Proximity in the form of frequent local presence is a critical condition for success in creating the desired organisational climate. However, it also enabled Metal Co's owner-manager to build positive relationships with the local authorities and managed to initiate partially state-financed metalworker vocational training. Overall, he seems to fulfil all conditions for institutional entrepreneurship as established by Phillips (2009) and Battilana and colleagues (2009) primarily by employing power of meaning (Ferner *et al.*, 2012). First, he demonstrates understanding of the nature and effect of institutional differences between Poland and the Netherlands. Second, he emphasises the perceived deficiencies of normative and cognitive institutions to the subsidiary workforce. Third, he initiates institutional change by describing the nature of the organisational climate he is striving for. Finally, he undertakes efforts in implementing the desired institutional change by setting an example through his behaviour toward both subsidiary management and subsidiary employees.

To Metal Co's owner-manager employee commitment to the company is key to company performance and success. Commitment can only be generated if employees do not have to worry about their employment security.

"In Poland, you can give an employee a temporary contract of, for example, ten years. But I notice a difference because a person with a temporary contract is constantly afraid to lose his job and, thus, takes much less initiative because they think, if this doesn't go well, I'll be booted tomorrow."

(owner-manager)

Therefore, Metal Co attempts to maximise employment security for permanent workers partially by making use of a flexible shell of temporary workers and workers who, as yet, have not completed their probationary period. New hires receive a permanent contract in two increments. They begin with a three-month

probationary period which is followed by a temporary nine-month contract. Subsequently, in the event of satisfactory performance, they receive a permanent contract. Interestingly, the Polish subsidiary manager can determine no relationship between employee commitment and business strategy and explains the owner-manager's policy in this from his cognitive-culturally conditioned background.

Another condition for generating commitment is that employees have an agreeable and motivating job. Finally, in the opinion of the owner-manager, taking responsibility for one's work is conducive to commitment. Taking responsibility is stimulated by a negative bonus system intended to prevent performance failures. Pay consists of an 85% fixed portion and a 15% performance-related bonus which is disbursed in the event of a normal performance level. If an employee makes an over-abundance of identical errors, only then is part of the bonus withheld. The system is designed to change employees' attitudes towards their jobs and, thus, to affect the cognitive and normative institutions in the internal organisational environment. Additionally, it can be interpreted as an attempt to create cognition-based or experience-based trust. Metal Co also uses positive bonuses, though only for management because the managers can noticeably influence profit. In lower positions, this influence is not discernible on an individual basis.

Metal Co claims its personnel policies and practices to be superior to those of domestic companies. Metal Co's owner-manager substantiates this claim in observing that employees from other companies in the region prefer to work at Metal Co.

"I sit quite a lot in the local pub. And I sponsor a few events at which I also show up. And I have good contacts with employees of my colleague entrepreneurs. And I notice that they would all prefer to work here."

(owner-manager)

Only large foreign MNEs may do a better job simply because these can afford the costs of a good personnel policy.

The level of pay is substantially, approximately 20%, above the regional average. Through a – unilaterally determined – company-level collective bargaining agreement, the pay structure within the company has been made transparent for employees. In this pay structure, regular increases are provided for. The firm has an assessment system to determine whether an employee is eligible for a higher

group in the pay scale. As yet, there is no profit distribution for employees – or shareholders, for that matter. The owner-manager intends to provide for a profit-related benefit as soon as shareholders are going to receive dividends.

The company prefers to internally fill vacancies above the entry level in order to meet the possible need for self-actualisation of employees. An added advantage is that, in this manner, they are able to retain good, ambitious employees. Metal Co actively searches for potentially suitable candidates for future vacancies. Candidates can participate in courses and training in the event that KSAs need to be upgraded. These courses are fully facilitated.

“If you always recruit external people, you can never offer your own people career growth opportunities. But external often is cheaper and faster. But if you have someone who wants to grow and can grow, then you run the risk that he leaves and that costs a lot of money as well. He takes in one stroke all his knowledge of the company with him.”

(owner-manager)

Employees – white- as well as blue-collar personnel – can also participate in facilitated courses if they or their supervisors believe it to be advantageous for their work. This is also communicated externally through the company website: ‘Besides, Metal Co continually invests in training for its employees so employees can develop their talents and career while the company’s quality and effectiveness are enhanced.’

Participation in Metal Co is exclusively informal in nature despite the fact that the company, having over 50 employees, is legally obliged to establish a works council if requested to by at least 10% of the workforce (Eurofound, 2011). Such a request, however, has not been made. With regard to direct participation, the company asserts to strive for two-way communication. Data regarding firm performance, profitability excluded, are provided through a regularly published staff magazine and during team meetings with the workforce wherein company performance and prospects are discussed. Upward problem-solving in the form of making suggestions is positively appreciated by management. This is congruent with the company’s policy of maximum job discretion, although blue-collar job discretion is lower than that of office staff due to the rigid demands of the production technology.

Metal Co has formal procedures for performance appraisal consisting of yearly, separately held performance and assessment interviews. Performance interviews are intended to facilitate two-way communication between employee and supervisor in which employees can indicate their wishes for self-actualisation within the company. In contrast, grievance management is informal. Employees can submit their grievances to their supervisors who subsequently address the issue. If the grievance is about the behaviour of the supervisor, the employee may present his case to the HRM officer or to management. There are no independent third parties involved in this process.

If balancing work and private lives is problematic, the company is willing to assist employees in solving this. In the event of coordinating work and private demands to one another, employees can receive days off – within certain bounds – without consequences for the regular number of holidays. Office staff, to a certain extent, can utilise flexible working hours to combine work with child care; for production employees, this is more difficult to realise due to the rigid nature of production activities.

“Once I had an employee with a gigantic problem at home that he was not able to solve. I asked him ‘what may be a solution’? He said ‘I just need to be a while on my own’. I say ‘then just take two weeks leave but without sacrificing holidays, you get them from me’. That he found terrific and eventually he solved his problem.”

(owner-manager)

The company pays significant attention to stimulating mutual bonds among employees and between the company and employees to create a pleasant working atmosphere. Each quarter, a meeting on a specific theme is conducted for the entire workforce that is concluded with a party. Furthermore, each year, two personnel parties are organised in which the mingling of the various categories of employees is encouraged. Friendly associations within teams and departments are stimulated.

Metal Co’s employees are perceived to have extensive power despite the lack of union support. The relevance of employees’ KSAs for firm performance motivates the company to employ advanced HR practices to elicit greater employee effort, creativity, and commitment. The owner-manager seems to have a high level of other-regarding values as is expressed in his recognition that the company has a

moral responsibility towards its employees. Consequently, he is prepared to take employee needs and interests such as employment security into consideration in the design of his personnel strategy. Accordingly, the employee relations arrangement prevailing at Metal Co can be characterised as employee-oriented CSR though with certain overtones of soft HRM as witnessed by the owner-manager's position towards participation.

7.8.5 Employee perception

7.8.5.1 *Management's other-regarding values*

Table 7.31 demonstrates that Metal Co's employees perceive management's level of other-regarding values as average. Blue-collar employees rate other-regarding values considerably lower than white-collar employees. Furthermore, the variance in perception among blue-collar employees is quite substantial, ranging from a low to a high level of perceived other-regarding values. Overall, there is a deficiency between the other-regarding values the owner-manager claims to adhere to and the extent to which these values are evident in the actual management of the company as perceived by employees.

Table 7.31 Employee perception of management's other-regarding values at Metal Co Poland

	N	mean	lower quartile	median	upper quartile
blue-collar	25	2.72	1.78	2.89	3.56
white-collar	17	3.33	3.00	3.33	3.78
all employees	42	2.97	2.44	3.06	3.67

7.8.5.2 *Union power*

None of the respondents indicated to be a member of a union. Furthermore, they asserted that unions have only minimal influence within the company. Most

employees, approximately 72%, believe management's attitude is neutral towards union membership while the other respondents in the majority (19%) indicate that management is opposed to union membership of their employees. The great majority of employees (80%), however, does not deem trade unions to be important for the protection of employee rights (see Tables A14.1 and A14.2).

7.8.5.3 Organisational climate

Employees' evaluation of the organisational climate – as evidenced in Table 7.32 – is more favourable than their perception of management's other-regarding values. Also at Metal Co, the relationship with management is the most positively assessed aspect of the organisational climate. Just as in the other investigated companies, transparency is least positively valued. The organisational climate and most of its underlying aspects are rated as average; only the relationship with management is determined to be average (blue-collars) to good (white-collars). Considering the importance that management attaches to employee initiative and suggestions, it is striking that employees experience only average voice opportunities. Table A14.3 demonstrates that this also pertains to grievance handling and management response to disagreement with their decisions; the majority of employees – approximately 65% – exhibit a neutral stance in this respect. This is also illustrated by the fact that a quarter of the respondents indicate finding it difficult to approach management (see Table A14.4).

7.8.5.4 HR practices

Employees' assessment of Metal Co Poland's overall HRM policy – as exhibited in Table 7.33 – contains a comparably average rating as their assessment of the company's organisational climate. With regard to employee assessment of the individual HR practices, self-actualisation opportunities (internal labour market plus courses and training) and working conditions are positively prominent. With regard to the assessment of job discretion, it is conspicuous – in relationship to the significance that the owner-manager attaches to employee contribution and initiative – that employees experience their job discretion as just average. Another conspicuous result in Table 7.33 is the low appreciation of pay compared to the owner-manager's statement that the company has a transparent wage structure and pays considerably above market level.

Table 7.32 Employee assessment organisational climate and its underlying aspects at Metal Co Poland

construct	category	N	mean	lower quart.	medi-an	upper quart.
organisational climate	blue-collar	31	3.06	2.56	2.94	3.69
	white-collar	19	3.50	3.06	3.44	4.00
	all employees	50	3.23	2.75	3.13	3.88
free use of voice	blue-collar	36	3.06	2.30	3.10	3.70
	white-collar	22	3.20	2.80	3.00	4.00
	all employees	58	3.11	2.60	3.00	3.80
transparency	blue-collar	40	2.78	2.20	2.60	3.40
	white-collar	23	3.06	2.60	3.00	3.80
	all employees	63	2.89	2.40	3.00	3.40
relational atmosphere	blue-collar	37	3.31	2.67	3.33	3.83
	white-collar	20	4.00	3.58	4.00	4.58
	all employees	57	3.55	3.00	3.67	4.00

quart. = quartile

Finally, the rating of work-life balance opportunities is average; for blue-collar employees, it is barely average.

7.8.5.5 Employee outcomes

Table 7.34 shows that blue-collar employees rate the degree to which the employee relations arrangement provides for their needs and interests as average while white-collar employees' judgement is positive. These results are in accordance with employees' assessments of organisational climate and HRM policy. Noteworthy is the relatively high level of work-related stress employees, blue-collar employees, in particular, appear to experience.

Table 7.33 Employee assessment over HRM policy and individual HR practices at Metal Co Poland

construct	category	N	mean	lower quart.	median	upper quart.
HR practices	blue-collar	28	3.00	2.61	2.95	3.39
	white-collar	17	3.45	3.05	3.50	3.68
	all employees	45	3.17	2.77	3.23	3.55
courses and training	blue-collar	38	3.39	3.00	3.60	4.00
	white-collar	22	3.39	3.20	3.40	3.60
	all employees	60	3.39	3.00	3.40	4.00
working conditions	blue-collar	42	3.55	3.00	3.67	4.00
	white-collar	23	4.14	3.67	4.00	4.67
	all employees	65	3.76	3.33	4.00	4.33
job discretion	blue-collar	38	2.90	2.50	2.88	3.50
	white-collar	22	3.30	2.75	3.50	4.00
	all employees	60	3.05	2.50	3.00	3.75
work-life balance	blue-collar	38	2.77	2.33	3.00	3.33
	white-collar	23	3.45	3.00	3.33	4.00
	all employees	61	3.03	2.67	3.00	3.33
pay	blue-collar	40	2.81	2.25	2.75	3.50
	white-collar	20	3.20	2.75	3.13	3.50
	all employees	60	2.94	2.50	3.00	3.50
internal labour market	blue-collar	41	3.18	3.00	3.33	3.67
	white-collar	22	3.44	3.00	3.50	4.00
	all employees	63	3.27	3.00	3.33	3.67

quart. = quartile

This may indicate friction between employee contribution and initiative as expected and demanded by management and their perceived level of job discretion. Blue-collar employees value employment security as the most positive element of their outcomes of Metal Co Poland's employee relations arrangement. White-collar employees appreciate employment security and job satisfaction more or less equally as the most positive outcomes.

Table 7.34 Assessment employee outcomes employee relations arrangement at Metal Co Poland

construct	category	N	mean	lower quart.	median	upper quart.
employee outcomes	blue-collar	22	2.93	2.31	2.88	3.62
	white-collar	13	3.67	3.23	3.77	4.08
	all employees	35	3.20	2.46	3.38	3.85
job satisfaction	blue-collar	33	3.01	2.50	3.00	3.83
	white-collar	18	3.72	3.17	3.67	4.17
	all employees	51	3.26	2.67	3.33	4.00
employment security	blue-collar	27	3.25	2.50	3.25	4.00
	white-collar	16	3.66	3.25	3.50	3.88
	all employees	43	3.40	2.75	3.50	4.00
work-related stress	blue-collar	37	2.67	2.33	2.67	3.33
	white-collar	22	3.11	2.33	3.33	4.00
	all employees	59	2.83	2.33	3.00	3.67

quart. = quartile

7.8.5.6 Employee relations arrangement overall

The most striking result when comparing the owner-manager's assessment and employee perception and experience of Metal Co Poland's employee relations arrangement is the significant discrepancy between management's assertion of the employees' key role in determining the success of the enterprise and the extent to

which employees, especially blue-collar employees, perceive and experience that they possess this key role. Based on the owner-manager's assessment, the employee relations arrangement has been classified as employee-oriented CSR. Employees, however, perceive a medium level of other-regarding values associated with ratings of organisational climate, overall HRM policy, and employee outcomes as average. Apparently, they perceive Metal Co Poland's employee relations arrangement as HRM-based. Blue-collar employees seem to experience the arrangement as bordering on a low-wage system.

7.8.6 Employee performance

According to the owner-manager, the positive employee outcomes of the firm's personnel policies and practices cause employees to reciprocate this through their productive behaviour. Consequently, firm outcomes are positive as well. This is evidenced in relatively high commitment, although the HRM officer qualifies this by stating that this applies to office employees more than to production workers. Furthermore, turnover and absenteeism rates are stated to be very low. Employees exhibit increased problem-solving behaviour and initiative than is common in Poland which advances productive effectiveness as well as efficiency. These outcomes strengthen the firm's strategy to switch to more innovative and tailor-made products.

Table 7.35 Employee commitment at Metal Co Poland

construct	category	N	mean	lower quart.	medi-an	upper quart.
employee commitment	blue-collar	32	3.49	3.00	3.50	4.00
	white-collar	19	4.07	3.75	4.00	4.50
	all employees	51	3.71	3.25	3.75	4.25

quart. = quartile

Table 7.35 depicts that employee commitment, particularly of white-collar employees, is high. This implies that employees appear to act in accordance to the expectations of management with regard to problem-solving behaviour, innovativeness, and productivity. Still, employees' relatively high level of commitment is re-

markable when determining their much lower assessment of management's other-regarding values, organisational climate, and HRM policy. This raises the question of whether particular elements of the employee relations arrangement, which are perceived as important by employees, have been omitted from the questionnaire.

7.9 CROSS-CASE ANALYSIS: THE SUBSIDIARIES' EMPLOYEE RELATIONS ARRANGEMENTS

7.9.1 The view of owner-managers

The information in the preceding sections regarding the measures of owner-managers' and/or subsidiary-managers' level of other-regarding values and perceived employee power enables categorisation of the individual subsidiaries' employee relations arrangements according to the scheme presented in Section 2.6. In Tables 7.36 and 7.37, this information is presented summarily. Rubber Co's and Horti Co's subsidiaries are directed by local managers who also possess a minority share in the company. Combined with the lack of owner-manager involvement with the subsidiary employee relations arrangements, this entails that, in practice, the subsidiary manager's level of other-regarding values and perceived level of employee power determine the subsidiary employee relations arrangement. For Packing Co as well, the subsidiary manager's level of other-regarding values and perception of employee power has been included in the table since the owner-manager leaves the design and execution of HR policies and practices entirely to him on the condition that employees have decent working conditions and earn a sufficient living. This latter aspect is emphasised by the extension of Packing Co's profit sharing scheme to subsidiary employees.

Only Metal Co's owner-manager appears to have a high level of other-regarding values and considers employees as legitimate stakeholders in the firm. The subsidiary managers of Horti Co and Rubber Co seem to have a purely instrumental view on the role and position of employees and do not seem to perceive employees as legitimate stakeholders in the firm. Packing Co's subsidiary manager acknowledges the relevance of employee KSAs to firm performance and considers it important to take employee needs and interests into consideration. The owner-managers of Paint Co and Valve Co do not appear to differentiate between their parent company and subsidiary employees.

Table 7.36 Elements of owner-manager's/subsidiary manager's other-regarding values

firm	employee needs end in themselves	employee needs means to end	moral responsibility	mutual trust	no non-functional distinctions
Valve Co		x		x	x
Paint Co		x		x	x
Horti Co					
Packing Co		x	xx		x
Rubber Co					
Harvest Co		x		x	x
Metal Co	xx	x	xx	x	x

Table 7.37 Level of perceived employee power by owner-managers/subsidiary managers

firm	KSAs	attitude	ex-perience	government regulation	union power	works council power
Valve Co		x		x		
Paint Co	x	x	x	x		
Horti Co	x		x	x		
Packing Co	x	x	x	x		
Rubber Co				x		
Harvest Co	x	x	x	x		
Metal Co	x	x	x	x		

Table 7.37 exhibits that the level of perceived employee power widely diverges across subsidiaries. At Valve Co's and Rubber Co's subsidiaries, competitive advantage is predominantly situated in low labour cost rather than employees' KSAs and, therefore, employees are perceived to have virtually no power, apart

from the power provided by government regulation, to compel companies to take account of their needs and interests. However, Valve Co's owner-manager strives for a more proactive attitude from employees in order to increase efficiency and free up management time and suggests that this may be achieved by providing them with employment security. At Horti Co's and Harvest Co's subsidiaries, the level of perceived employee power is higher due to the fact that employees can acquire the relevant skills and abilities only by means of experience accrued over time. Just as with Valve Co's owner-manager, Harvest Co's owner-manager aims to increase efficiency and to free up management time by encouraging a more proactive attitude among employees. Finally, perceived employee power is greatest at Paint Co, Packing Co and Metal Co due to the overriding importance that both owner-managers and subsidiary managers attach to employees' KSAs, proactive attitude, and experience in attaining competitive advantage.

The actual design of the employee relations arrangement and the way the HR policies and practices comprising that arrangement are accomplished depend on the owner-managers' intent of whether to transfer (elements of) the parent company's employee relations arrangement to the foreign subsidiary. This intent is – apart from the availability of the necessary financial and other resources – affected by perceived institutional distance, employee proximity, language barriers, investment motive, investment mode, and the subsidiary's ownership structure. In turn, the strength of transfer intent affects owner-managers' willingness to exercise institutional entrepreneurship in order to overcome institutional obstacles. Table 7.38 presents the outcomes of these measures for the individual companies. The researcher expected low perceived institutional distance, high employee proximity, a low language barrier, market and asset seeking investment motives, greenfield investment and full ownership to contribute positively to transfer intent. Yet, the empirical research provided a more mixed representation.

All owner-managers perceived institutional distance – normative and cognitive institutional distance, in particular – to be high. Employee proximity is dependent upon the degree of interaction between the owner-manager and subsidiary employees. This is measured by the amount of time spent in the subsidiary by the owner-manager. Both Harvest Co's and Metal Co's owner-managers are present in their foreign subsidiary for a considerable portion of the year and, thus, frequently interact with the subsidiary's workforce. Paint Co's owner-manager frequents the Polish subsidiary on a regular monthly basis while Valve Co's owner-manager visits the subsidiary a few times a year on an irregular basis.

Table 7.38 Factors affecting case study companies' transfer intent

firm	p.i. distance	empl. proximity	language barrier	invest. motive	invest. mode	owners. structure
Valve Co	high	medium	high	efficiency seeking	brownfield	100%
Paint Co	high	medium	high	market seeking	greenfield	100%
Horti Co	high	low	high	asset seeking	brownfield	75%
Packing Co	high	low	high	market seeking	brownfield	100%
Rubber Co	high	low	high	efficiency seeking	brownfield	51%
Harvest Co	high	high	medium	asset seeking	brownfield	100%
Metal Co	high	high	low	efficiency/ asset seeking	greenfield	100%

p.i. distance = perceived institutional distance

empl. proximity = employee proximity

invest. = investment; owners. = ownership

The latter two have contacts with the workforce during those occasions. Horti Co's and Rubber Co's owner-managers regularly visit the subsidiary but primarily to discuss the firm's business strategies with the local manager. Packing Co's owner-manager only maintains contact with the subsidiary manager. Consequently, in these latter three firms, the owner-manager's proximity to employees can be characterised as low. Proximity becomes more meaningful if the owner-manager speaks the language of the host country and, thus, can communicate directly with employees. Metal Co's owner-manager is, in fact, the only owner-manager capable of communicating directly with employees.

The investment motive affects transfer intent in the sense that, for market and resource seeking companies, employee commitment exerts a stronger influence on competitive advantage than for efficiency seeking companies. Therefore, for these companies, it is relevant – if only because of instrumental considerations – to take

employee needs and interests into consideration. This pertains for all of the firms except for Rubber Co and Valve Co. Metal Co is in a somewhat special position because of its dependence on relatively low-priced but high-skilled labour which demonstrates a problem-solving approach in their production activities. The investment mode affects transfer intent in that transfer of practices to new sites without history is easier than transfer to acquired companies where the new practices must displace existing practices as with the subsidiaries of Metal Co and Paint Co, the two greenfield sites. Finally, transfer to not fully owned subsidiaries is considered as problematic because local management's power base is supported by their minority share. Furthermore, the mere fact that the subsidiary is not wholly owned may lower the owner-manager's commitment to the subsidiary employees. After all, the owner-manager may perceive them as local management's employees rather than as parent company employees.

Due to the perceived extensive institutional distance, institutional entrepreneurship is required to accomplish the transfer. Table 7.39 presents the companies' scores on the measures of institutional entrepreneurship. The possible scores on the power measures range from low to high; with regard to institutional change, it is assessed to what extent the various aspects are present. Metal Co's owner-manager appears to be the only one who fulfils all aspects of institutional entrepreneurship. Power of meaning – which includes command of the host country's language – seems particularly decisive for successful institutional entrepreneurship. The other owner-managers who are attempting to incite institutional change experience their lack of knowledge of the host country's language as an important obstacle to interaction with the subsidiary employees.

The collective information from Tables 7.38 and 7.39 appears to indicate a relationship between employee proximity, investment motive, investment mode, and ownership structure, on the one hand, and transfer intent and, thus, owner-managers' willingness to exercise institutional entrepreneurship on the other. Institutional entrepreneurship begins with creating proximity to the subsidiary workforce since proximity is a necessary condition for having an ability to exercise power of meaning. Owner-managers' willingness to make the effort of creating proximity and exercising power of meaning appears to be stimulated by employees' importance for achieving competitive advantage which is reflected in the investment motives of seeking markets and resources. Greenfield sites appear to be more amenable to transfer than brownfield sites while full ownership is suggested to be conducive for generating commitment to employees on the part of owner-managers. Furthermore, full ownership results in a greater power for

Table 7.39 Companies' scores on institutional entrepreneurship

firm	power of meaning	power of re-sources	power of de-cision mak-ing	initiating institutional change	implementing institutional change	internalising institutional change	integrating institutional change
Valve Co	low	high	high	yes	partly	no	no
Paint Co	medium	high	high	yes	yes	partly	partly
Horti Co	low	high	medium	no	no	no	no
Packing Co	low	high	high	yes	no	no	no
Rubber Co	low	high	medium	no	no	no	no
Harvest Co	medium	high	high	yes	yes	no	no
Metal Co	high	high	high	yes	yes	yes	yes

decision making for the owner-manager which affords him the opportunity to exert his individual position. Finally, all subsidiaries, including those with shared ownership, are, to a great degree, dependent on parent company resources. This latter fact, however, does not appear to be related to the exercise of institutional entrepreneurship.

Institutional entrepreneurship is relevant since all owner-managers – with full subsidiary ownership – indicate that they are interested in transferring the parent company or 'Dutch-type' organisational climate to their subsidiaries which signifies that they believe the subsidiary's (previously) existing internal normative and cognitive institutional environment is inappropriate for their preferred way of managing businesses. What they hope to achieve is to change the internal institutional environment such that employees feel encouraged to exhibit a more proactive attitude since that will improve the subsidiary's efficiency and will free up time for management to spend on more strategic issues. Therefore, the 'Polish-' or 'Estonian-type' of organisational climate with its significant role in hierarchical status and, thus, distance between management and employees which, from their perspective, prevents employees from taking initiative, must be replaced by an organisational climate in which free use of voice, transparency, and a positive relational atmosphere between management and workforce prevail. Table 7.40 indicates to what extent owner-managers and subsidiary management think they have succeeded in creating the preferred organisational climate.

Table 7.40 Assessment subsidiary organisational climate by owner-managers and/or subsidiary management

firm	free use of voice	transparency	relational atmosphere
Valve Co	low	medium	medium
Paint Co	high	medium	good
Horti Co	low	low	good
Packing Co	medium	medium	medium
Rubber Co	low	low	medium
Harvest Co	high	medium	good
Metal Co	high	high	good

From Table 7.40, a positive correlation can be inferred between preferred organisational climate and the exercise of institutional entrepreneurship. Organisational climate appears to be the least ideal in those subsidiaries in which no institutional entrepreneurship is deployed while the correspondence is greatest at Metal Co where exercise of institutional entrepreneurship is most complete. At Paint Co's subsidiary, the internal organisational climate is in accordance with the owner-manager's preferences, however, the relationship between subsidiary and parent company is somewhat strained due to the lack of transparency and involvement in decision making processes as experienced by subsidiary management. At Valve Co's subsidiary, the efficiency seeking investment motive, the redundancies following the acquisition, and the apparently unclear prospects of the subsidiary endangered employees' feeling of employment security which hindered free use of voice and made creation of a positive relational atmosphere more difficult. Packing Co's owner-manager attempts to initiate change not so much by institutional entrepreneurship directly aimed at the Polish subsidiary as by employing power of meaning in visits of country managers to the parent company. This is accomplished by demonstrating the parent company's organisational climate and elaborating on the effects of this organisational climate on employee attitude and efforts.

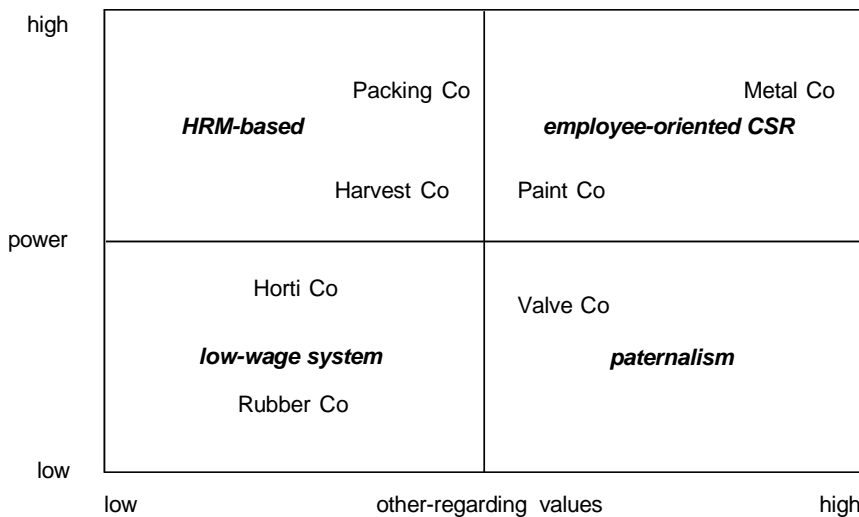
Table 7.41 Assessment employee relations arrangement subsidiary by owner-managers and/or subsidiary management

firm	employee needs as basis	beyond law and union contract
Valve Co	medium	medium
Paint Co	medium/high	high
Horti Co	low	low
Packing Co	medium	high
Rubber Co	low	low
Harvest Co	medium	medium
Metal Co	high	high

Taking employee needs and interests into consideration by means of specific HR policies and practices has been argued to help realise the expected effects of the 'Dutch- type' organisational climate. Table 7.41 presents the assessment of HR policies and practices in this respect based on the information from management.

Table 7.41 demonstrates that owner-managers of companies with fully owned subsidiaries also consider their host country employees to be significant stakeholders and believe that a positive organisational climate is an important instrument for meeting both employee needs and interests and the needs and interests of the company. Scores on policies and practices exceeding the requirements of government regulation are generally higher than for the parent companies in the Netherlands. This may be partially due to minimal union power; none of the subsidiaries is encapsulated within collective bargaining agreements negotiated with unions. Consequently, in the Netherlands, collective bargaining agreements for most parent companies provide for outcomes of HR practices beyond government regulations, however, this is not the case for their foreign subsidiaries. The higher scores may also be due to the circumstance – a point that Crane *et al.* (2008) also signalled – that employee-oriented CSR is easier and attainable at lower costs in relatively low regulated countries with lower and middle income levels.

Figure 7.1 The owner-managers' and/or subsidiary managers' assessment of the subsidiaries' employee relations arrangements



Combining the data from Tables 7.36, 7.37, 7.40, and 7.41 with the analyses in the previous sections, the categorisation of the employee relations arrangements of the parent companies as envisaged by their owner-managers is presented in Figure 7.1. The representation emerging from this scheme is more varied than in the Dutch situation which is partially due to diverging circumstances regarding investment

motive, investment mode, and ownership structure. It is also partially due to the different levels of owner-manager interference with subsidiaries' employee relations arrangements. Based on their subsidiary managers' assessment, Valve Co's subsidiary employee relations arrangement can be characterised as paternalism. Horti Co's subsidiary arrangement can be categorised as a low-wage system just like Rubber Co's subsidiary arrangement for blue-collar employees while its arrangement for white-collar employees is HRM-based. The arrangements at the subsidiaries of Packing Co and Harvest Co are typified as HRM-based. Finally, Metal Co's and Paint Co's employee relations arrangements can be classified as employee-oriented CSR.

7.9.2 The view of employees

In the conceptual model, it is maintained that the employee performance that is intended by the owner-manager to result from the company's employee relations arrangement will be affected by the way employees perceive, experience, and rate this arrangement. Perception of the owner-manager's and/or the local subsidiary manager's other-regarding values and experience of organisational climate, the firm's overall HRM policy, and the single HR practices affect employees' rating of the total arrangement. However, in the relations between employers and employees norms, values and attitudes play an important role. It has been established in Chapter 5 that these differ considerably between the Netherlands, on the one hand, and Eastern European countries like Poland and Estonia on the other. Employee relations arrangements as practised by Dutch multinational SMEs are constructed on Dutch normative and cognitive institutions. Combined with the regulative differences between the Netherlands and Poland and Estonia, this entails that Dutch multinational SMEs face a substantial institutional distance to bridge with regard to transfer of employee relations arrangements. This is expected to negatively affect the transfer of organisational climates as well as those HR practices in which cognitive and normative institutions exert significant influence.

As is evidenced from Table 7.42, subsidiary employees, overall, consider management's level of other-regarding values to be in the lower medium to lower high qualifications. The white-collar characterisation at Valve Co Poland can only minimally be considered due to the fact that there was only one respondent. At Metal Co, the negative relationship between the self-reported level of other-regarding values

Table 7.42 Perceived other-regarding values owner-managers by blue- and white-collar employees¹

firm	all employees	blue-collars	white-collars
Valve Co Poland	higher medium	medium	very high
Paint Co Poland	lower high	n.a.	lower high
Horti Co Estonia	medium-high	higher medium	lower high
Packing Co Poland	higher medium	n.a.	higher medium
Rubber Co Poland	medium	lower medium	lower high
Harvest Co Estonia	higher medium	medium	lower high
Metal Co Poland	medium	lower medium	higher medium

by management and the employee perception of management's level of other-regarding values is remarkable.

Generally, assessment of the level of other-regarding values is lower in subsidiaries than in parent companies. This may be related to institutional distance. The implication is that, compared to the parent companies, employee relations arrangements will be appreciated less positively in the subsidiaries, *ceteris paribus*.

Owner-managers, overall, emphasise that, while mutual trust is an essential ingredient of their employee relations arrangements, they notice that relationships between employers and employees in Poland and Estonia are characterised by mistrust. This is also evidenced in Chapter 5 where it has been established that the Netherlands can be considered a high-trust society whereas Poland and Estonia

¹ Measures are to be interpreted as follows:

Low: ≤ 2.50

Lower medium/average: $2.50 < \text{measure} < 2.90$ Medium/average: $2.90 < \text{measure} < 3.10$

Higher medium/average: $3.10 < \text{measure} < 3.40$ Medium/average to high/good: $3.40 < \text{measure} < 3.60$

Lower high/good: $3.60 < \text{measure} < 3.90$

High/good: $3.90 < \text{measure} < 4.10$

Very high/good: ≥ 4.10

are examples of low-trust societies. On the other hand, the discrepancy between parent company and subsidiary perceived level of other-regarding values may be related to the fact that, for subsidiary employees, since they interact primarily with local management in most subsidiaries, other-regarding values of local management are more relevant than the other-regarding values of the owner-manager. Furthermore, interaction between most owner-managers and subsidiary employees is complicated because of the language barrier. Based on Table 7.42 and the outcomes of the interviews with owner-managers and local management, it can be concluded that the overall employee assessment of management's level of other-regarding values appears to be lower than the assessment based on the self-report of owner-managers and the report of HRM staff while, for the parent companies, the opposite appears to be true.

As argued in Chapters 2 and 3, employee assessment of the company's employee relations arrangement is comprised of two elements including employees' perception of and experience with the degree to which both the firm's organisational climate and its comprehensive HRM policy meet their needs and interests. Table 7.43 exhibits the rating of each firm's organisational climate by their total workforce as well as by blue-collar and white-collar employees separately. It is only at Paint Co's subsidiary where the workforce judges the organisational climate to be good. Paint Co's subsidiary employees consider transparency as the only aspect scoring in the average range. The organisational climate in the other organisations is qualified in the average range. Just as is perceived other-regarding values, organisational climate is generally less positively assessed in subsidiaries than in parent companies, Paint Co Poland being a notable exception. In this aspect as well, differences in trusting attitudes and weaker owner-manager influence on the organisational climate may be factors contributing to explaining this difference. Another remarkable outcome is that, where in the parent companies organisational climate is generally rated lower than perceived other-regarding values, subsidiary employees, in contrast, rate organisational climate higher than perceived other-regarding values.

Table 7.44 shows the second segment of the firms' employee relations arrangements as perceived by employees, overall HRM policy. In contrast to parent company employees, subsidiary employees rate their firm's organisational climate and overall HRM policy almost equally. Second, the variance across firms in employees' assessment of their firms' overall HRM policies and organisational climate is more or less equal.

Table 7.43 Rating firms' organisational climate by employees¹

firm	all employees	blue-collars	white-collars
Valve Co Poland	higher average	lower average	lower good
Paint Co Poland	lower good	n.a.	lower good
Horti Co Estonia	higher average	average	lower good
Packing Co Poland	higher average	high	average
Rubber Co Poland	higher average	average	lower good
Harvest Co Estonia	average-good	average-good	average-good
Metal Co Poland	higher average	average	average-good

Table 7.44 Employee rating of firms' overall HRM policy²

firm	all employees	blue-collars	white-collars
Valve Co Poland	higher average	higher average	n.a.
Paint Co Poland	lower good	n.a.	lower good
Horti Co Estonia	higher average	higher average	average-good
Packing Co Poland	higher average	lower good	higher average
Rubber Co Poland	higher average	average	average-good
Harvest Co Estonia	higher average	average	higher average
Metal Co Poland	higher average	average	higher average

Based on Tables 7.42-7.44 and the analyses in the previous sections, Figure 7.2 depicts how the subsidiaries' employee relations arrangements are rated by the entire workforce based on their appreciation of the organisational climate and of the HR practices. Employees' judgment varies less than that of management between the subsidiaries. Almost all employee relations arrangements are HRM-

¹ See footnote Table 7.42.

² See footnote Table 7.42.

based, in their view. Rubber Co and Horti Co are the exceptions being classified as low-wage arrangement and paternalism, respectively. Rubber Co's classification is based on the judgment by blue-collar employees; white-collars think of their arrangement as HRM-based.

Figure 7.2 Categorisation of employee relations arrangements as perceived by subsidiary employees as a combination of organisational climate and overall HRM policy

HR practices	high	<p><i>HRM-based</i></p> <p>Packing Co</p> <p>Harvest Co Paint Co</p> <p>Valve Co / Metal Co</p>	<p><i>employee-oriented CSR</i></p>
	low	<p>Rubber Co</p> <p><i>low-wage system</i></p>	<p>Horti Co</p> <p><i>paternalism</i></p>
		low	high
		organisational climate	

Table 7.45 illustrates how employees rate the degree to which their firms' employee relations arrangements provide for their work-related needs and interests. These needs and interests are divided into three categories. First, job satisfaction concerns employees' need for having an agreeable and motivating job in a pleasant environment. After all, employees spend a significant portion of their lives at their job. Second, employment security provides employees with the certainty that their livelihood is provided for. Third, the level of work-related stress indicates how well employees can cope with job demands and, thus, indicates the potential effect of work on physical and mental health.

In contrast to the parent companies, Tables 7.42-7.44 do not allow to unambiguously establish a possible correlation between perceived other-regarding values, on the one hand, and organisational climate and overall HR practices, on the other. If anything, the conclusion is that there is a high correlation between subsidiary employees' assessment of organisational climate and their assessment of overall HRM

policy. However, the low subsidiary assessment of organisational climate compared to the parent company is related to the relatively low values of free use of voice and especially transparency. In the subsidiaries, just as in the parent companies, the relational atmosphere with management is assessed most positively. It is to be expected that the perceived level of management's other-regarding values will be most evidently apparent in mutual personal relationships. That transparency and free use of voice are rated less positively than personal relationships may be related to the fact that the arrangements concerned as well as the overall HR practices have an even more informal character than in the parent companies. This conclusion is in accordance with the findings of the literature on HRM policies in small and medium-sized companies, as stated in Chapter 2.

The employee relations arrangements seem to provide for employees' overall work-related needs and interests to a large extent: outcomes range from average-good to good. Only blue-collar employees at Rubber Co rate their outcomes of Rubber Co's employee relations arrangement relatively negatively. Valve Co and Packing Co appear to perform best in this respect. The variance between blue-collar and white-collar employees seems to be limited, though slightly higher than in the parent companies. The difference between blue- and white-collar rating at Rubber Co, however, is exceptionally large which appears to confirm the conclusion from the interviews that Rubber Co, in fact, maintains two different employee relations arrangements: one for blue-collar and another for white-collar employees. The variance between the different aspects of employee outcomes within and between subsidiaries, however, is less overt than in the parent companies. The subsidiary level of job satisfaction varies more between blue-collar and white-collar employees than the level of job satisfaction in parent companies with blue-collar job satisfaction being lower than white-collar job satisfaction, Packing Co Poland excepted.

Based on the conceptual model, it is expected that a positively appreciated employee relations arrangement and perceived high level of other-regarding values of the owner-manager positively moderate employee outcomes. It is assumed that a perceived high level of other-regarding values has a positive effect, a medium level has a neutral effect, and a low level of other-regarding values has a negative effect.

Table 7.45a **Appreciation of employee outcomes of the firms' employee relations arrangements**

firm	outcomes	blue-collars	white-collars	all employees
Valve Co Poland	employee outcomes	lower good	n.a.	lower good
	job satisfaction	medium	lower high	medium
	employment security	lower high	n.a.	lower high
	work-related stress	lower high	higher medium	lower high
Paint Co Poland	employee outcomes	average-good	n.a.	average-good
	job satisfaction	higher medium	n.a.	higher medium
	employment security	high	n.a.	high
	work-related stress	high	n.a.	high
Horti Co Estonia	employee outcomes	higher average	lower good	average-good
	job satisfaction	higher medium	lower high	medium-high
	employment security	lower high	lower high	lower high
	work-related stress	medium-high	lower high	lower high
Packing Co Poland	employee outcomes	lower good	lower good	lower good
	job satisfaction	lower high	medium-high	medium-high
	employment security	medium-high	lower high	lower high
	work-related stress	lower high	medium-high	medium-high
Rubber Co Poland	employee outcomes	lower average	lower good	higher average
	job satisfaction	low	high	medium
	employment security	lower high	high	lower high
	work-related stress	medium	medium-high	higher medium

Table 7.45b Appreciation of employee outcomes of the firms' employee relations arrangements

firm	outcomes	blue-collars	white-collars	all employees
Harvest Co Po-land	employee outcomes	higher average	average-good	average-good
	job satisfaction	higher medium	higher medium	higher medium
	employment security	higher medium	lower high	medium-high
	work-related stress	higher medium	medium-high	medium-high
Metal Co Poland	employee outcomes	average	lower good	higher average
	job satisfaction	medium	lower high	higher medium
	employment security	higher medium	lower high	medium-high
	work-related stress	lower medium	higher medium	lower medium

The employee relations arrangement moderates employee outcomes through the employees' perception of and experience with the employee relations arrangement. The effect of the employee relations arrangement consists of the combination of the effects of its components, i.e., the organisational climate and the HR practices. In the case of employee-oriented CSR, employees' appreciation of both organisational climate and HR practices is high which is expected to positively moderate the rating of the outcomes of the employee relations arrangement. In contrast, in a low-wage system, employee appreciation of both aspects is low and, consequently, the rating of the employee relations arrangement's outcomes is expected to be moderated negatively. In the other employee relations arrangement categories, one aspect is appreciated high and the other low and, as a result, the combined effect is expected to be neutral. In Table 7.46, the results are presented. Employee assessment of management's other-regarding values, the firms' employee relations arrangements, and the employee outcomes of those arrangements is expressed in terms of positive (+), medium/neutral (0) or negative (-).

The results of Table 7.46 present a mixed representation with regard to a possible correlation between perceived owner-managers' other-regarding values, assessment of the employee relations arrangement, and the rating of employee outcomes which is in contrast to the results for the parent companies.

Table 7.46 The relationship between perceived owner-managers' other-regarding values, appreciation of firms' employee relations arrangements and employee outcomes

firm	other-regarding values	employee relations arrangement	employee outcomes
Valve Co Poland	0	0	+
Paint Co Poland	0	+	0
Horti Co Estonia	0	0	0
Packing Co Poland	0	0	+
Rubber Co Poland	0	0	0
Harvest Co Estonia	0	0	0
Metal Co Poland	0	0	0

However, it must be noted that, compared to the parent company employees, subsidiary employees rate their employee relations arrangements much more in the range between average and the margin of average and good. Furthermore, the underlying figures for the positive employee outcomes are relatively near the average range. This suggests that the manner of presenting the mutual associations slightly distorts the overall representation.

7.10 CONCLUSION

All owner-managers profess that subsidiary employees' legitimacy as stakeholders is equally high as that of parent company employees. Still, with the exception of Metal Co and Harvest Co, the salience of the subsidiary employees to the owner-managers is lower than the salience of the parent company employees. This confirms the conclusion in Chapter 6 that, for the types of employee relations arrangements other than employee-oriented CSR, propositions 1a and 1b of the conceptual model appear to pertain in the opposite order: self-regarding values form the basis of the employee relations arrangement which are moderated by other-regarding values. Subsidiary employees generally possess less power due to the absence of union power and a lower level of government regulation compared to the Netherlands. As

the competitive advantage of Valve Co's and Rubber Co's subsidiaries is built on low labour cost, their blue-collar employees also lack KSA-based power. Furthermore, subsidiary employees' proximity to owner-managers is lower than that of parent company employees. Two factors determine lower proximity. First, the physical distance between parent company and subsidiary significantly diminishes the level of interaction between owner-manager and subsidiary workforce. Second, interaction between owner-manager and subsidiary workforce is hindered by the language barrier between the parties. Only at Metal Co and, to a lesser degree, Harvest Co, subsidiary workforce proximity to the owner-manager is not negatively affected by proximity.

Lack of proximity places most local subsidiary managers in a pivotal position with regard to the design, implementation, and functioning of the subsidiary's employee relations arrangement. This position is strengthened by the substantial institutional distance between the Netherlands and the host country experienced by the owner-managers, primarily with regard to cognitive and normative institutions. Nonetheless, the subsidiary employees' attitude towards their work provides owner-managers with an incentive to exercise institutional entrepreneurship. In the parent companies, owner-managers perceive the smooth running of the production system as being constructed on mutual trust between management and the workforce and employees taking initiative and exercising job discretion. This is seen to result in more effective and efficient production while freeing up management time for developing business strategies. According to all owner-managers, mutual trust and taking initiative are not something obvious in Eastern Europe which, to a great extent, creates significant difficulty in attempting to function in their preferred manner.

The owner-managers believe that the cognitive and normative institutions determining the attitude and behaviour of their subsidiary's workforce, to a certain extent, are rooted in the political and social history of the host countries – which cannot be influenced – but, to an even greater extent, in the role of hierarchical status with which relationships in host country organisations are permeated. In their opinion, the cognitive and normative institutions prevailing within the subsidiary can be moulded through their organisational climate. Therefore, most owner-managers are eager to transfer the organisational climate component of their parent companies' employee relations arrangement in order to push back the role of hierarchical status. With regard to the transfer of HR practices, if striven for, the focus is on improving workplace conditions, especially those related to health

and safety issues. However, the ownership structure of the subsidiary appears to directly affect transfer intent. The owner-managers of Horti Co and Rubber Co, who do not fully own their subsidiaries, leave the design, implementation, and functioning of the subsidiary's employee relations arrangement entirely to local management.

If the organisational climate and the HR practices supporting the organisational climate are to be transferred successfully, enormous cognitive and normative institutional obstacles need to be cleared. In order to accomplish this, institutional entrepreneurship based on power of meaning is required. The statements of the owner-managers make it clear that proximity in the form of physical presence and command of the host country's language are essential to exercise power of meaning. Only the owner-managers of Metal Co and – to a lesser extent with regard to language – Harvest Co fulfil these conditions. Still, apart from the owner-managers of Horti Co and Rubber Co, all owner-managers engage in some form of institutional entrepreneurship in their transfer efforts.

Evaluating the degree of institutional entrepreneurship exercised by the owner-managers based on the insights of Battilana *et al.* (2009) and Phillips *et al.* (2009) (see Chapter 2), it can be established that all owner-managers exhibit understanding of the nature and effect of the institutional differences between the host country and the Netherlands. Furthermore, the owner-managers of Valve Co, Paint Co, Harvest Co, and Metal Co provide arguments to their subsidiary's workforce of why they perceive the current organisational climate as inadequate and present, in contrast, their ideal type of organisational climate. Packing Co's owner-manager does something similar, though limits it to the subsidiary manager during his visits to the parent company. Finally, the owner-managers of Paint Co, Harvest Co, and Metal Co, to varying degrees and by various methods, have undertaken efforts to implement the desired institutional changes. All five owner-managers, in some manner, engaging in institutional entrepreneurship claim to have been successful, though one more so than the other.

Based on employee legitimacy and power as evidenced from the statements by owner-managers and local managers, the employee relations arrangements of the subsidiaries of Paint Co and Metal Co can be categorised as employee-oriented CSR while Harvest Co's and Packing Co's arrangement can be considered as HRM-based. Valve Co's arrangement seems to be paternalistic

and Horti Co appears to employ a low-wage arrangement, although bordering on HRM-based. Finally, Rubber Co has a HRM-based arrangement for white-collar employees and a low-wage arrangement for blue-collars. Even more than for their parent companies, owner-managers deem the organisational climate the most important component of the employee relations arrangement. Only those HR practices which directly affect the utilisation of employee KSAs – working conditions and job discretion – are considered relevant. To a certain extent, Metal Co is an exception to this rule with its attention to self-actualisation through internal labour market policy and formal performance appraisal.

In all subsidiaries, employees perceive owner-managers' and/or local managers' other-regarding values to underlie the employee relations arrangement. On average, the firms' organisational climates are assessed fairly positively. Conspicuously, in all cases, transparency is the least positively appreciated component of the organisational climate. Disclosure of how the firm is performing is more limited than in the parent companies. Often, free use of voice is also appreciated relatively negatively. Based on interviews with employees, this appears to be related to the role of hierarchical status within the subsidiaries.

With regard to HR practices, employees in all companies perceive that their KSAs are appreciated positively. This is evidenced from the fact that the HR practices directly affecting the exploitation of employees' KSAs – job discretion and working conditions – are generally assessed more positively than the other HR practices which are more related to employees' own needs and interests or to the development of their KSAs. However, at Valve Co, Packing Co, and Harvest Co, working conditions are assessed relatively negatively while at Metal Co, the level of job discretion is considered relatively low. In none of the companies did employees feel that their KSA-based power within the company is supported by direct union influence. This may be related to an adversarial management position. Only one respondent stated to be a union member. Most respondents did not fill out the items regarding union influence, and the ones who did indicated, in great majority, that management's stance towards union membership is, at best, neutral.

Overall, employees' assessment of their firm's organisational climate is more or less similar to that of their firm's HR practices. The knowledge that owner-managers and subsidiary managers consider an organisational climate with positive informal relations as more significant than applying formal advanced

HR practices to promote their employees' well-being appears to indicate that employees perceive the influence of owner-managers' other-regarding values on design, implementation, and working of the firm's employee relations arrangement as less important than the influence of their power. At four firms, employees' appreciation of the outcomes of the employee relations arrangement seems slightly higher than that of both HR practices and of the firm's organisational climate. At Rubber Co, Valve Co, and Metal Co, the appreciation of employee outcomes seems comparable to that of organisational climate as well as of HR practices. Apparently, for employees, organisational climate and concrete HR practices seem equally important for shaping the employee outcomes of the employee relations arrangement.

Surprisingly, employees' commitment to the firm is greater than expected on the basis of their assessment of the employee outcomes in the employee relations arrangement. This may be due to a social desirability bias in the answers to the commitment items. An alternative explanation is that the employment terms in the subsidiaries compare favourably to the regular employment terms in Polish and Estonian companies.

Overall, outcomes between subsidiaries seem to be more equal than between the parent companies. The employees of Valve Co Poland and Packing Co Poland appear to be more satisfied with the outcomes of their firms' employee relations arrangement than the employees of the other subsidiaries. Conspicuously, Paint Co scores less positive on the outcomes of its employee relations arrangement than on the employee relations arrangement itself. This is caused by the relatively low level of job satisfaction. Furthermore, just as in the parent companies, there appear to be assessment differences between blue-collar and white-collar employees. Both of these issues are addressed in Chapter 8 for further exploration.

CHAPTER 8

EMPLOYEE RELATIONS ARRANGEMENTS ACROSS COMPANIES AND INSTITUTION- AL ENVIRONMENTS¹

8.1 INTRODUCTION

Whereas Chapters 6 and 7 have addressed employee relations arrangements at establishment level in a single national institutional environment, Chapter 8 cuts across these boundaries in an effort to establish to what degree the subsidiary and parent company share a common employee relations arrangement. Consequently, Harvest Co is excluded from this analysis since it only has employees at the subsidiary.

The degree of commonality is expected to depend on the degree to which the owner-managers perceive their parent company's and subsidiary's employees as equally important stakeholders of their company and, thus, have transferred (elements of) the parent company's organisational climate and HR practices to the foreign subsidiaries. Subsequently, it is assessed to what degree parent company and subsidiary employees perceive commonality in their employee relations arrangements. The interpretation and assessment of the employee relations arrangement, however, is affected by the differences between the home-country and host-country institutional environments.

Section 8.2 focusses on the employee relations arrangements of parent companies and subsidiaries. In this aspect, the owner-managers' and the employees' opinions are compared. It is also investigated to what degree the assessment of single firms' employee relations arrangements diverge between blue-collar and white-collar employees. Section 8.3 analyses the degree in which the correlations between the constructs determining employees' perceptions on the nature of the employee relations arrangement and its consequences differ across institutional en-

¹ All tables at the end of this chapter

vironments. Furthermore, differences in employees' evaluation of the constructs between institutional environments are researched.

Section 8.4 takes stock of the possible differences between blue-collar and white-collar employees regarding their assessment and appreciation of the constructs making up and resulting from their firms' employee relations arrangements. This is performed at the level of the total researched employee population as well as at the level of the national institutional environment. Finally, Section 8.5 contains the conclusion.

8.2 INTRA- AND INTER-COMPANY ANALYSIS OF THE EMPLOYEE RELATIONS ARRANGEMENT

First, owner-managers' and employees' assessment, interpretation, and appreciation of the company's employee relations arrangement as described in Chapters 6 and 7 are compared for each individual company. Within this framework, I also investigate whether there are differences in appreciation between blue-collar and white-collar employees. Second, I compare the company-wide employee relations arrangements as perceived by employees to each other.

8.2.1 Valve Co

At Valve Co, the parent company's arrangement can be – based on the owner-manager's statements – characterised as HRM-based bordering on employee-oriented CSR while the subsidiary's arrangement can be categorised as paternalism. The different treatment of employees is attributed to the fact that the owner-manager estimates parent company employee power to be greater than that of subsidiary employees resulting in attention to a wider range of needs and interests of parent company employees – especially with regard to job discretion and development of employees' KSAs. On the other hand, this makes the owner-manager's other-regarding values play a relatively greater role in the subsidiary. This is evidenced, for example, from his efforts to increase proximity to the subsidiary's workforce through language courses and joint dinners during his visits.

The assessment of the employee relations arrangement as employee-oriented CSR by the home-country employees diverges from the owner-manager's perception of an HRM-based arrangement. Additionally, the subsidiary workers assess differently than the owner-manager: they consider their arrangement HRM-based instead of paternalistic. Subsidiary employees perceive a lower level of other-regarding values than the parent company employees, possibly because subsidiary employees relate other-regarding values to the subsidiary management rather than to the owner-manager, see Table 8.1. A complementary explanation is that lower appreciation may be due to the layoffs by the owner-manager immediately following the acquisition of the subsidiary.

Table 8.1 also demonstrates that, where blue-collar appreciation is generally comparable between parent company and subsidiary, parent company blue-collar perceive a higher level of other-regarding values than their subsidiary colleagues. Remarkably, blue-collar subsidiary employees assess their commitment to the firm as being higher than the Dutch employees do. White-collar ratings are generally higher than blue-collar ratings except for the outcomes of the employee relations arrangement.

8.2.2 Paint Co

At Paint Co, based on the opinion of the owner-manager, the parent company's arrangement is categorised as HRM-based while the subsidiary's arrangement is typified as employee-oriented CSR. The difference is due to a greater role of other-regarding values related to the lower level of employee protection by government and unions compared to the Netherlands; practices that are mandatory in the Netherlands are performed in the subsidiary only out of the owner-manager's own accord, for example, with regard to the exercise of voice. Both arrangements are intended to encourage employees to utilise their potential to the fullest.

The perception of employees regarding the employee relations arrangement of the parent company as HRM-based does not diverge from that of the owner-manager. Subsidiary employees consider their arrangement also to be HRM-based. Subsidiary employees seem to appreciate both organisational climate and HR practices better than the parent company's employees. Management's other-regarding values and employee outcomes are appreciated more or less equally while commitment in

Poland appears to be at a higher level than in the Netherlands. With regard to the parent company, it can be noted that, on all aspects, assessment and appreciation by blue-collar employees is lower than by white-collar employees.

8.2.3 Horti Co

At Horti Co, the owner-manager has no bearing on the design and implementation of the subsidiary's employee relations arrangement. That is left completely to the Estonian minority shareholder. The difference between the employee relations arrangement – as perceived by management – at the parent company (paternalism) and the subsidiary (low-wage system) is primarily related to the weight of other-regarding values in the design of the employee relations arrangement based on management statements (see Sections 6.4.1 and 7.4.2). Horti Co's owner-manager views employees as rightful stakeholders while the subsidiary manager expresses a purely economic view on the relationship between employees and company. The owner-manager's assessment of employee power is slightly higher than that of the subsidiary manager.

The employee opinion regarding the employee relations arrangement, however, is remarkably equal (see Table 8.3). Both groups rate their establishment's arrangement as being in the border area of the paternalistic, low-wage, and HRM-based arrangements. Both groups rate their power higher than their employers do in expressing in their satisfaction with HR practices. The parent company employees rate the contribution of the owner-manager's other-regarding values to the arrangement lower than the owner-manager which may be related to the strained relationships between management and the workforce in the production establishment (see Section 6.4.4). In both establishments, blue-collar employees rate all items lower than the white-collar employees do. Also, at Horti Co, employee commitment is surprisingly high in consideration of the relatively low appreciation of the employee relations arrangement and its outcomes for employees. Furthermore, the white-collar employees in the parent company exhibit greater commitment than is to be expected based on their appreciation of the employee relations arrangement and its outcomes. This may be related to the relatively high score on perceived other-regarding values of the owner-manager.

8.2.4 Packing Co

Based on the statements from management, the employee relations arrangement at the parent company can be categorised as employee-oriented CSR while the one prevailing at the subsidiary is classified as HRM-based. This may be related to the minimal interference with employee relations at the subsidiary, which makes it plausible that the nature of the employee relations arrangement is largely determined by the subsidiary manager's other-regarding values and by employee power as perceived by the subsidiary manager. In their assessment of the employee relations arrangement, both the subsidiary's employees and the parent company's employees concur with the opinion of management.

From Table 8.4, it appears that the level of perceived other-regarding values at the subsidiary is markedly lower than that at the parent company. Though to a lesser extent, this also pertains to all other constructs except commitment. At the parent company, the scores for the blue-collar employees are higher than the corresponding scores for the white-collar employees. This, however, must be interpreted with great restraint and care because of the low response rate among blue-collar employees. Blue-collarers at the subsidiary rate the employee relations arrangement better than white-collar employees, however, this may be related to the rather strained relationship between the subsidiary manager and his female office employees (see Chapter 7.5).

8.2.5 Rubber Co

At Rubber Co, the owner-managers leave design and implementation of the subsidiary's employee relations arrangement almost entirely to the subsidiary manager who is also a minority shareholder. Only the physical workplace conditions, that are subject to the terms of the ISO 9000 certificate, are regulated by the parent company. Consequently, the influence of the parent company's arrangement on the subsidiary's arrangement is negligible. Based on management statements, the employee relations arrangement at the parent company can be typified as HRM-based bordering on employee-oriented CSR while the subsidiary's arrangement, in fact, is a dual arrangement: a low-wage system for blue-collar employees and an HRM-based arrangement for white-collar employees. The difference is primarily explained by the professed other-regarding values of management and – to a

somewhat lesser extent – in differences in employee power. Where the interviewed owner-manager stated feeling responsibility for the working conditions of his employees, the subsidiary manager indicates perceiving the employment relationship as purely economic.

Table 8.5 demonstrates that the parent company's employees evaluate their employee relations arrangement more unambiguously as HRM-based than does the owner-manager. Compared to the owner-manager, they perceive their power as being reflected in their appreciation of the firm's HR practices as lower, and they rate the owner-manager's other-regarding values lower. The difference is especially poignant with respect to the blue-collar employees. The subsidiary employees concur with the subsidiary manager's assessment. Blue-collar employees perceive their regime as a low-wage arrangement, whereas white-collar employees rate their arrangement as HRM-based. It can be concluded that the parent company's blue-collar employees rate their arrangement and its outcomes more positively than the blue-collar employees at the subsidiary. Also, blue-collar commitment at the parent company appears to be greater than at the subsidiary. Conspicuously, the evaluation by the subsidiary's white-collar employees is higher than that of the white-collar employees at the parent company, especially with regard to commitment.

8.2.6 Metal Co

According to the opinion of the owner-manager, the character of the parent company's and subsidiary's employee relations arrangements differ: the parent company's arrangement is characterised as HRM-based while the subsidiary's arrangement is typified as employee-oriented CSR. The difference is due to a greater role of other-regarding values related to the lower level of employee protection by government and unions compared to the Netherlands: practices that are mandatory in the Netherlands are also performed in the subsidiary from the owner-manager's own accord, for example, with regard to the exercise of voice. Both arrangements are intended to encourage employees to utilise their potential to the fullest.

Conspicuously, employees' evaluation diverges from the owner-manager's assessment in opposite directions. The parent company's employees rate their arrange-

ment as employee-oriented CSR, whereas the subsidiary's workforce rates it as HRM-based. Table 8.6 demonstrates that this is related in particular to a diverging assessment of the owner-manager's other-regarding values. The relatively minimal appreciation of blue-collar employees for the components of the actual employee relations arrangement, organisational climate, and HR practices is reflected in an equally low rating of the outcomes of the arrangement. In comparison, the level of blue-collar commitment is high. The evaluation by white-collar employees on all aspects is higher than that of blue-collar. The parent company's white-collar employees are most satisfied with their employee relations arrangement which is translated into a high level of commitment.

8.3 INSTITUTIONAL INFLUENCES ON THE RELATIONSHIPS IN THE CONCEPTUAL MODEL

How employees perceive the relationships between the basis, components, and results of the employee relations arrangement is expected to be influenced by the national institutional environment, in particular, its cognitive and normative pillars. Various opinions regarding this relationship are evidenced in different values of the correlation between the constructs concerned and, thus, in different effect sizes. Due to the non-normal distribution of the constructs, correlations have been calculated employing Spearman's rho. Furthermore, despite all propositions being directional, a two-tailed test is utilised since it is not possible – because of the cross-sectional nature of the data – to exclude the possibility that the direction is the other way around than what is proposed (Field, 2009). Table 8.7 demonstrates the results for the total employee response, the response divided into blue-collar and white-collar, and home and host country, respectively. All results turn out to be significant, $p < 0.01$.

As expected, all correlations between the constructs are positive. In the conceptual model, it is stated that employees' assessment of the employee relations arrangement is affected by the degree to which they perceive management's other-regarding values to underlie the design of the employee relations arrangement. Table 8.7 exhibits that the correlation of perceived other-regarding values with both the arrangement's components – organisational climate and HR practices – is stronger than its correlation with employee commitment. The correlation of perceived other-regarding values with employee outcomes, however, is comparable to

that of the employee relations arrangement. This is not very surprising as it is quite probable that employees' assessment of the employee relations arrangement is based on the way it provides for their individual needs and interests.

With regard to the correlation of employees' assessment of their employee relations arrangement with the outcomes of that arrangement, it can be determined that the relationship with HR practices is stronger than the relationship with organisational climate: employees believe that formalised, adequate HR practices result in higher quality outcomes of the arrangement than an employee-friendly organisational climate. This is in direct contrast to the general line of thinking of the owner-managers that organisational climate is of more concern for the quality of the employee relations arrangement than the specific HR practices. This conclusion corresponds with the observation in the literature (see e.g., Boxall, 1998; Van Buren *et al.*, 2011) that employees prefer formalisation of HR practices from the considerations of procedural and distributive justice.

Finally, the correlation of employee outcomes with employee commitment is slightly more favourable than the correlation of the employee relations arrangement with commitment. These correlations being so close to one another is related to the previous observation that there is a close association between employees' assessment of the employee relations arrangement and their appreciation of the arrangement's outcomes.

The next issue is whether the strength of the relations in the conceptual model differs between functional categories of employees. Table 8.8 provides the required information. For the home-country employees of the investigated companies, the correlation of management's perceived other-regarding values with the employee relations arrangement is higher than for the host-country employees. The correlation between the employee relations arrangements and their outcomes is lower in the home country than in host country establishments. In both home and host country, the correlation between HR practices and employee outcomes is higher than between organisational climate and employee outcomes. Conspicuously, in the home country where employee commitment has a higher correlation with the other constructs than employee outcomes, the situation in the host country is exactly the opposite. This may be due to the great significance employees in Eastern Europe attach to the primary outcomes of the employee relations arrangement such as pay and employment security (Alas & Rees, 2006; Borooah, 2009).

Finally, it is investigated whether the strength of the correlations between the constructs differs between functional categories. Table 8.9 demonstrates that this is, indeed, the case. White-collar correlations between constructs appear to be lower than the corresponding blue-collar correlations except for the correlations between HR practices and the organisational climate and between HR practices and employee outcomes. In the case of blue-collar employees, management's perceived other-regarding values are similarly correlated with the employee relations arrangement and the employee outcomes while this is less obvious in the case of white-collar employees. Lastly, for blue-collar employees, commitment is highly correlated with the outcomes of the employee relations arrangement. For white-collar employees, the employee relations arrangement in itself appears to be more important.

8.4 DIFFERENCES IN APPRECIATION OF THE EMPLOYEE RELATIONS ARRANGEMENTS AND THEIR OUTCOMES

Apart from the strength and the nature of the relationships between the basis of the employee relations arrangement, the employee relations arrangement itself and its consequences as well as various categories of employees can also differ in their assessment of the employee relations arrangement's characteristics. This is studied by conducting Mann-Whitney tests for several types of categories of employees. First, I have looked at the possible differences in employee appreciation across the two institutional contexts employing Mann-Whitney with exact significance. The results are presented in Table 8.10 wherein the median is reported instead of the means as this is more befitting for non-parametric tests (Field, 2009).

It becomes evident that the parent company employees appreciate management's other-regarding values, their employee relations arrangement, as well as its outcomes significantly more than the subsidiary employees, $p < 0.01$ – other-regarding values and employee outcomes even very significantly so, $p < 0.001$. Only with regard to employee commitment, there are no significant variances between the two groups.

These differences may be related to differences in employee power and employee proximity as perceived by owner-managers, resulting in an improved conformation of the parent company arrangements to the needs of the home country

employees compared to the situation in the subsidiaries. In Section 8.3, subsidiary employee commitment appeared to correlate relatively strongly with employee outcomes. Possibly, the subsidiary employees so greatly appreciate their outcomes that their commitment is positively influenced.

Secondly, I have checked whether there are significant differences between blue-collar and white-collar employees with regard to their appreciation of the employee relations arrangement's basis, its design and implementation, the arrangement's outcomes, and employees' commitment to the company. Table 8.11 clearly demonstrates that blue-collar employees appreciate all aspects of their firms' employee relations arrangement significantly lower than white-collar employees, $p < 0.001$. This conclusion concurs with the findings in the Fourth European Working Conditions Survey (2007) wherein white-collar workers report a higher level of job satisfaction than blue-collar workers.

Furthermore, I have researched whether there are significant within-country differences in the rating of the employee relations arrangement and its outcomes between blue-collar and white collar employees. Table 8.12 demonstrates that the parent companies' white-collar employees evaluate all aspects related to the employee relations arrangement as being significantly better than their blue-collar counterparts, $p < 0.001$. Only with regard to perceived other-regarding values and employee outcomes was significance at a lower level ($p < 0.01$ and $p < 0.05$, respectively). The same conclusion is true for the subsidiaries.

Finally, I have investigated whether there are within-category differences in the assessment between institutional environments. From Table 8.12, it appears that the within-category differences between institutional environments are more moderate than the inter-category differences between institutional environments. Blue-collar appreciation of the organisational climate, HR practices, and their commitment to the company does not differ significantly between parent companies and subsidiaries, $p > 0.05$. However, the differences in the judgment of management's other-regarding values and of employee outcomes are quite significant, $p < 0.01$. With regard to white-collar employees, the differences in assessment of employee outcomes and employee commitment do not differ significantly between parent companies and subsidiaries, $p > 0.05$. Parent companies' white-collar employees' rating of the other elements relating to the employee relations arrangement, however, was significantly – organisational climate and HR practices, $p < 0.05$ – or very significantly – other-regarding values, $p < 0.001$ – higher than the rating by the subsidiaries' white-collar employees.

8.5 CONCLUSION

With respect to the parent companies, owner-managers' perceptions on the nature of their employee relations arrangement does not differ fundamentally from that of their workforces. Only Valve Co's and Metal Co's employees classify their arrangement as employee-oriented CSR while the owner-managers consider their arrangements as HRM-based. In the subsidiaries, the differences between management's opinions and employees' perceptions are more significant. Only at Packing Co, Harvest Co, and Rubber Co did management and workforce classify their establishment's employee relations arrangement under the same rubric. At Horti Co, employees' judgment is more positive, resulting in categorising the arrangement under paternalism. At Valve Co, a more positive view on their power than management is offset by a less positive view on management's other-regarding values shifting the arrangement from paternalism to HRM-based. At Paint Co and especially Metal Co, employees' opinions on the nature of the employee relations arrangement are more negative than management's view. At both companies, employees rate their arrangement as HRM-based instead of employee-oriented CSR. The difference is primarily due to their lower rating of management's other-regarding values.

Overall, employees evaluate organisational climate, HR practices, and employee outcomes as less favourable than as depicted by the owner-managers. Though this pertains to both home-country employees and host-country employees, the differences are more overt in the case of host-country employees. Furthermore, blue-collar employees overall are considerably less satisfied with their situation than white-collar employees. This conclusion is virtually independent of the institutional environment. However, on the whole, both the parent company's blue-collar and white-collar employees are more positive about their employee relations arrangement and its results than the subsidiary's workforce. Surprisingly, that does not lead to differences in commitment to the company. Apparently, employees' assessment of basis, design, implementation, and results of firms' employee relations arrangements is related, to a higher degree, to their functional category than to the institutional environment.

Apart from how the various aspects of the employee relations arrangement are appreciated, the effects of the institutional environment may also come to the forefront in the strength of the relationships connecting basis, design and implementation, outcomes and commitment to one another. Institutional influences, in partic-

ular, appear to be expressed in the role ascribed to management's perceived other-regarding values which are determined more positively by home-country than by host-country employees. Overall, the inter-construct relationships turn out as expected, though there is little discrimination between the employee relations arrangement itself and its outcomes for employees.

Irrespective of the institutional environment, employees believe, in contrast to owner-managers, that HR practices are more significant than the firm's organisational climate for good-quality outcomes. Conversely, home-country employees as well as white-collar employees in the host countries appear to appreciate their firms' organisational climate more than the HR practices. Blue-collar employees in the host countries rate organisational climate and HR practices almost equally. It is striking that the correlations between the model's constructs are higher for blue-collar employees than for white-collar employees. Overall, however, there is no necessity to revise the model, perhaps apart from inclusion of employee outcomes in the employee relations arrangement instead of considering it a construct in its own right.

Table 8.1 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Valve Co

construct	blue-collar				white-collar			
	N	25 per- centile	median	75 per- centile	N	25 per- centile	median	75 per- centile
The Netherlands								
perceived other-regarding values	2	344	3.94	4.44	7	3.78	4.00	4.11
organisational climate	2	2.50	3.03	3.56	7	3.94	4.00	4.31
HR practices	1	3,36	3,36	3,36	7	3.59	3.77	3.86
employee outcomes	2	3.43	3.82	4.21	7	3.36	3.64	3.71
employee commitment	2	3.25	3.63	4.00	7	3.75	4.00	4.50
Poland								
perceived other-regarding values	3	2.44	3.00	3.78	1	4.22	4.22	4.22
organisational climate	2	2.00	2.88	3.75	1	3.81	3.81	3.81
HR practices	2	3.09	3.27	3.45	0			
employee outcomes	3	3.23	3.54	4.08	0			
employee commitment	3	4.00	4.00	5.00	1	4.25	4.25	4.25

Table 8.2 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Paint Co

construct	blue-collar				white-collar			
	N	25 per-centile	median	75 per-centile	N	25 per-centile	median	75 per-centile
The Netherlands								
perceived other-regarding values	9	3.11	3.67	3.89	12	3.50	3.78	3.94
organisational climate	9	3.13	3.63	3.75	12	3.19	3.50	3.75
HR practices	7	2.73	3.18	3.55	7	3.27	3.41	3.77
employee outcomes	7	2.93	3.57	3.71	10	3.50	3.82	3.93
employee commitment	9	3.50	3.75	4.00	13	3.50	4.00	4.00
Poland								
perceived other-regarding values					3	3.33	3.56	4.11
organisational climate					4	3.47	3.69	4.00
HR practices					4	3.23	3.68	4.20
employee outcomes					3	2.77	3.00	4.62
employee commitment					4	3.25	4.00	4.88

Table 8.3 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Horti Co

construct	blue-collar				white-collar			
	N	25 per- centile	median	75 per- centile	N	25 per- centile	median	75 per- centile
The Netherlands								
perceived other-regarding values	2	300	333	367	3	378	378	422
organisational climate	3	281	338	363	3	356	356	363
HR practices	2	245	293	341	3	305	341	350
employee outcomes	3	277	308	369	3	369	377	385
employee commitment	3	250	250	350	3	300	425	475
Estonia								
perceived other-regarding values	7	311	344	356	8	328	367	400
organisational climate	6	2.94	3.09	3.38	5	3.75	3,88	3.94
HR practices	7	3.09	3.18	3.82	4	3.20	3.57	3.66
employee outcomes	8	3.31	3.35	3.58	7	3.15	3.62	4.23
employee commitment	9	3.50	3.50	3.75	8	3.75	4.00	4.63

Table 8.4 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Packing Co

construct	blue-collar				white-collar			
	N	25 per-centile	median	75 per-centile	N	25 per-centile	median	75 per-centile
The Netherlands								
perceived other-regarding values	2	4.44	4.67	4.89	18	3.89	4.00	4.22
organisational climate	2	3.88	4.06	4.25	17	3.94	4.13	4.38
HR practices	1	3.77	3.77	3.77	18	3.55	3.80	4.14
employee outcomes	2	4.31	4.42	4.54	18	3.77	4.08	4.38
employee commitment	2	3.75	4.38	5.00	19	3.50	4.00	4.75
Poland								
perceived other-regarding values					5	3.00	3.00	3.78
organisational climate	2	4.06	4.06	4.06	5	2.63	2.75	3.38
HR practices	1	3.77	3.77	3.77	6	2.64	3.41	3.50
employee outcomes	1	3.62	3.62	3.62	4	3.35	3.73	4.08
employee commitment	1	4.00	4.00	4.00	5	4.00	4.00	4.25

Table 8.5 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Rubber Co

construct	blue-collar				white-collar			
	N	25 per-centile	median	75 per-centile	N	25 per-centile	median	75 per-centile
The Netherlands								
perceived other-regarding values	13	2.89	3.44	3.78	10	3.56	3.67	4.00
organisational climate	13	2.56	3.13	3.56	10	3.13	3.41	4.06
HR practices	10	2.64	2.93	3.50	10	3.00	3.25	3.45
employee outcomes	13	3.23	3.62	3.92	11	3.38	3.54	3.85
employee commitment	15	3.25	3.50	4.00	11	3.25	3.50	4.00
Poland								
perceived other-regarding values	9	2.33	2.67	3.33	5	3.56	3.78	4.00
organisational climate	9	2.44	3.06	3.38	5	3.69	3.75	3.88
HR practices	7	2.82	2.95	3.36	5	3.36	3.59	3.73
employee outcomes	7	2.08	2.85	3.62	6	3.69	3.85	4.08
employee commitment	9	2.75	3.50	3.50	6	4.00	4.00	4.25

Table 8.6 Appreciation constructs as assessed by blue-collar and white-collar employees parent company and subsidiary Metal Co

construct	blue-collar				white-collar			
	N	25 per-centile	median	75 per-centile	N	25 per-centile	median	75 per-centile
The Netherlands								
perceived other-regarding values					2	4.00	4.11	4.22
organisational climate					2	3.75	3.84	3.94
HR practices					2	3.68	3.86	4.05
employee outcomes					2	3.69	3.73	3.77
employee commitment					2	4.25	4.25	4.25
Poland								
perceived other-regarding values	25	1.78	2.89	3.56	17	3.00	3.33	3.78
organisational climate	31	2.56	2.94	3.69	19	3.06	3.44	4.00
HR practices	28	2.61	2.95	3.39	17	3.05	3.50	3.68
employee outcomes	22	2.31	2.88	3.62	13	3.23	3.77	4.08
employee commitment	32	3.00	3.50	4.00	19	3.75	4.00	4.50

Table 8.7 Correlations between constructs for the total response

	other-regarding values	organisational climate	HR practices	employee outcomes	employee commitment
other-regarding values	1				
organisational climate	0.786 **	1			
HR practices	0.742 **	0.844 **	1		
employee outcomes	0.732 **	0.659 **	0.765 **	1	
employee commitment	0.561 **	0.611 **	0.615 **	0.628 **	1

ns = not significant ($p > 0.05$), * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; N = 115

Table 8.8 Correlations constructs for home and host country employees

	other-regarding values	organisational climate	HR practices	employee out-comes	employee commitment
The Netherlands					
other-regarding values	1				
organisational climate	0.749 **	1			
HR practices	0.743 **	0.855 **	1		
employee outcomes	0.606 **	0.580 **	0.680 **	1	
employee commitment	0.589 **	0.627 **	0.588 **	0.473 **	1
Poland/Estonia					
other-regarding values	1				
organisational climate	0.837 **	1			
HR practices	0.766 **	0.840 **	1		
employee outcomes	0.805 **	0.714 **	0.840 **	1	
employee commitment	0.637 **	0.630 **	0.686 **	0.807 **	1

ns = not significant ($p > 0.05$), * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; The Netherlands N = 60; Poland/Estonia N = 56

Table 8.9 Correlations constructs for blue-collar and white-collar employees

	other-regarding values	organisational climate	HR practices	employee outcomes	employee commitment
blue-collar					
other-regarding values	1				
organisational climate	0.825 **	1			
HR practices	0.725 **	0.791 **	1		
employee outcomes	0.844 **	0.667 **	0.722 **		
employee commitment	0.543 **	0.553 **	0.615 **	0.700 **	1
white-collar					
other-regarding values	1				
organisational climate	0.652 **	1			
HR practices	0.646 **	0.791 **	1		
employee outcomes	0.542 **	0.540 **	0.707 **	1	
employee commitment	0.405 **	0.482 **	0.477 **	0.451 **	1

ns = not significant ($p > .05$), * $p < .05$, ** $p < .01$, *** $p < .001$; blue-collar employees $N = 46$; white-collar employees $N = 69$

Table 8.10 Differences in appreciation constructs between institutional environments

construct	median		Mann-Whitney ¹	Z	exact sig. (2-tailed)
	NL	PL/EST			
other-regarding values	3.78	3.33	1961.000	-5.444	0.000
organisational climate	3.63	3.38	2938.000	-3.059	0.002
HR practices	3.52	3.32	2280.500	-2.739	0.006
employee outcomes	3.69	3.46	2248.000	-3.549	0.000
employee commitment	3.88	3.75	4600.500	-0.113	0.910

¹ Wilcoxon has not been included in table 8.10, since the results do not deviate from Mann-Whitney.

Table 8.11 Differences in appreciation constructs between blue-collar and white-collar employees

construct	median		Mann-Whitney ¹	Z	exact sig. (2-tailed)
	blue-collar	white-collar			
other-regarding values	3.22	3.78	1872.000	-5.584	0.000
organisational climate	3.16	3.75	2166.500	-5.273	0.000
HR practices	3.09	3.55	1578.500	-5.182	0.000
employee outcomes	3.38	3.77	1825.000	-4.818	0.000
employee commitment	3.50	4.00	2690.500	-5.095	0.000

¹ Wilcoxon has not been included in tables 8.11, since the results do not deviate from Mann-Whitney.

Table 8.12 Within-parent company and subsidiary differences in appreciation constructs between blue-collar and white-collar employees

construct	median		Mann-Whitney ¹	Z	exact sig. (2-tailed)
	blue-collar	white-collar			
parent companies					
other-regarding values	3.56	3.89	414.500	-3.178	0.001
organisational climate	3.50	3.81	367.500	-3.728	0.000
HR practices	3.14	3.68	216.000	-3.689	0.000
employee outcomes	3.62	3.77	493.000	-2.058	0.039
employee commitment	3.50	4.00	477.500	-3.445	0.000
subsidiaries					
other-regarding values	3.00	3.56	580.500	-3.835	0.000
organisational climate	3.06	3.69	760.000	-3.171	0.001
HR practices	3.09	3.41	598.000	-3.154	0.001
employee outcomes	3.31	3.69	457.000	-3.721	0.000
employee commitment	3.50	4.00	808.500	-3.807	0.000

¹ Wilcoxon has not been included in tables 8.12, since the results do not deviate from Mann-Whitney.

CHAPTER 9

CONCLUSION

9.1 INTRODUCTION

Traditionally, both the Industrial Relations and the Strategic HRM perspectives have emphasised that the employee outcomes of firms' employee relations arrangements are dependent upon the balance of power between employers and employees. Over the past decades, however, the balance of power appears to be shifting to the advantage of the employers: globalisation and the accompanying processes of deregulation have weakened the position of organised labour and, thus, labour's bargaining power. Furthermore, employees' power that is based on their KSAs has diminished as well. Increasingly, companies can utilise employees with similar KSAs in low-wage countries through foreign direct investment or outsourcing. These developments place pressure on the terms of employment and on the employment security of West-European workforces.

Employee power derives from three sources – KSAs, union power, and government regulation – which vary in importance between national business systems. Within Europe, differences between national business systems and sectors incite firms to apply various employee relations arrangements which lead to differently appreciated outcomes for their employees. Nonetheless, national business systems allow single firms' employee relations arrangements – those of SMEs in particular - to vary. This may be related to the more moderate effect of formal institutions on SMEs compared to large firms (Edwards & Ram, 2010). The divergence of employment terms in SMEs within national business systems raises the question of whether factors other than power, such as moral values, affect employee relations arrangements and their employee outcomes. This thesis seeks an answer to this question in CSR policies that SMEs have in place with regard to their employees.

CSR is about applying values in business processes. The beginning point of this thesis is that the value system of owner-managers may be a significant factor af-

fecting the design and the implementation of the employee relations arrangements of (multinational) SMEs. An owner-manager's value system is an idiosyncratic mixture of self-regarding and other-regarding values. Self-regarding values lead owner-managers to conceive of employees as an instrument to increase firm performance. Consequently, self-regarding values incentivise owner-managers to take employees' needs and interests into consideration only in so far as employee power coerces them to do so. Other-regarding values, in contrast, motivate owner-managers to take employees' needs and interests into account, irrespective of employees' power; in this case, owner-managers do not consider employees' needs and interests as instruments to increase firm performance but as an end in itself. Employers then feel responsible for the livelihood and the quality of the working lives of their employees.

SMEs and large corporations differ in their approach to CSR with regard to issue, personal, organisational, and contextual characteristics. SMEs are determined to pay more attention to issues concerning primary stakeholders (Lepoutre & Heene, 2006). The manner in which they accomplish this is dependent on the value system of the owner-manager, the power of the primary stakeholders concerned, the available resources, and the economic and social environment that these firms are operating in. The owner-manager – more than the CEO of a large corporation – occupies a pivotal position in the company, impacting all business processes as well as impersonating the company.

This thesis addresses the question to what extent owner-managers base their employee relations arrangements on their other-regarding values and how this affects employee perception of the arrangement and, as a result, employee performance. In answering the research question, employee relations arrangements have been tentatively categorised along the dimensions of employee power – reflecting the owner-manager's self-regarding values – and the owner-manager's other-regarding values.

In a low-wage arrangement, employees are perceived as easily replaceable resources whose costs must be minimised. Accordingly, both employee power and management's level of other-regarding values are minimal. In HRM-based arrangements, employees are considered as assets that must be nurtured and developed in order to deliver the highest possible contribution to firm performance. Thus, employee power is strong while the level of other-regarding values is low. Paternalist arrangements are characterised by benevolent policies towards em-

employees based on the opinion that employees do not always know what is best for themselves. Consequently, management's level of other-regarding values is high while employee power is perceived to be low. Finally, under employee-oriented CSR arrangements, employers recognise that employees' needs and interests as individually formulated are necessarily taken into consideration if they are to be considered true stakeholders in the firm. Simultaneously, employers realise that employees require explicit recognition as stakeholders in order to be motivated to perform to the best of their abilities. This implies that both management's level of other-regarding values and employee power are high.

As demonstrated in Chapter 2, different types of employee relations arrangements lead to different exploitation of HR practices and to different organisational climates. Assessment of HR practices is expected to represent employee perception of their power while the appreciation of organisational climate is believed to reflect employee perception of management's other-regarding values. This entails that these employee relations arrangements, from the employee viewpoint, can be classified along the dimensions of organisational climate and HR practices, analogous to the categorisation from management's viewpoint.

Conditions for successfully instituting employee-oriented CSR are the existence of mutual trust between management and employees, a feeling among employees that they are respected for their own sake, and the employment of practices and instruments that proceed beyond legal and trade union arrangements in encompassing work-related employee needs. In the literature, e.g., Guest & Peccei, (2001), it is ascertained that employee relations arrangements of the employee-oriented CSR type are quite rare despite the surmised positive effects. That observation also pertains to the investigated companies in this research. Apparently, instituting such an arrangement is easier to discuss than the actual implementation. Furthermore, employee-oriented CSR is characterised by the absence of non-functional differences in the treatment of the various employee categories. Many firms, however, utilise various employee relations arrangements for different types of employees, e.g., arrangements based on soft HRM for employee categories with valuable and rare KSAs and low-wage arrangements for expendable employees whose KSAs are not vital to the firm (Boxall *et al.*, 2011).

The research intends to narrow three significant deficiencies in the CSR literature. Research on how SMEs deal with CSR issues is minimal. This is also true for comparing the ways companies in different institutional environments engage in CSR (Lee, 2008). Finally, research regarding employee relations arrangements

is rarely included in the CSR literature (Pfeffer, 2010). These deficiencies call for research on how differences between institutional environments and owner-managers' value systems affect the nature of employee relations arrangements within multinational SMEs.

Research regarding SMEs is relevant because they supply approximately two-thirds of gross domestic product and employment. Moreover, SMEs in Europe have considerably internationalised over the past decades, predominantly by means of export, however, also in ever greater degree through foreign direct investment. This implies that it can be researched whether foreign subsidiaries' employee relations arrangements are governed by that same mixture of other- and self-regarding values and how institutional differences affect subsidiaries' employee relations arrangements.

In order to do so, this research has been structured as a multiple case-study comprising seven Dutch multinational SMEs in the north-eastern Netherlands in the manufacturing, services, and resources sectors owning a subsidiary in Poland or Estonia. These countries have primarily been selected due to the sharp contrast between their national institutional environments and the Dutch national institutional environment. The size of the case-study companies varied between 20 to 160 employees. Apart from the firms in the resources sector, companies were thriving with regard to profit and growth of sales, implying that scarcity of resources in these companies did not play as prominent a part in SMEs in general (Lee, 2008). Investment motives varied across market seeking, efficiency seeking, and resource seeking motives. Most subsidiaries were wholly owned; two companies had a majority share in their subsidiaries' capital.

Section 9.2 summarises and analyses the most important findings of this research. In Section 9.3, these conclusions are related to the literature review. Finally, Section 9.4 identifies the limitations of this research and sketches possible avenues of future research.

9.2 FINDINGS

9.2.1 Parent companies: The point of view of owner-managers

In the perspective of the owner-managers involved, employees' legitimacy as a stakeholder of the firm played an extensive role – next to employees' power – in the design and implementation of their firms' employee relations arrangements. All owner-managers, with the exception of one, stated that this was not only true for the parent companies but also for their foreign subsidiaries. Legitimacy was expressed in wording that indicated an awareness that, since employees are deeply affected by the firm's activities and behaviours, their interests needed to be addressed. Moral responsibility for employees and their dependents, the significance of job satisfaction, employment security, and mutual trust are frequently employed signal words. They also asserted that they perceived their other-regarding values to be reciprocated by employees in their attitude towards their work, their propensity to solve upcoming problems out of their own accord, lower absenteeism and turnover, and higher productivity.

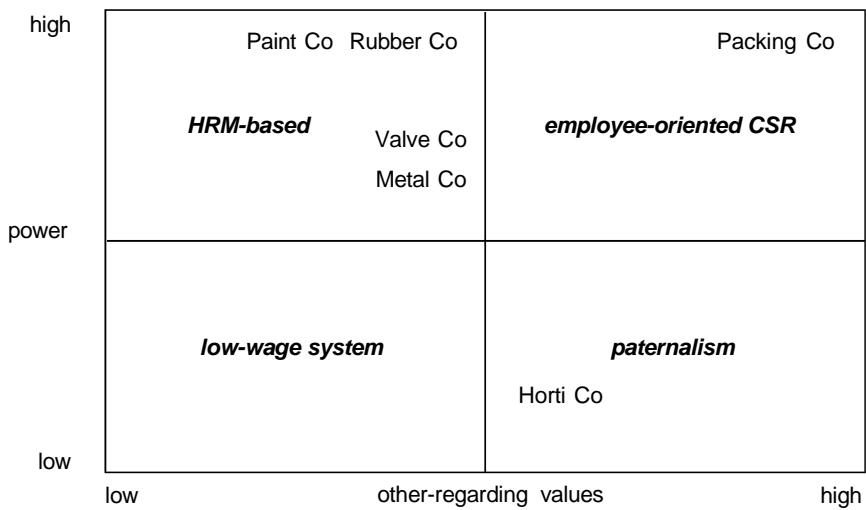
While collective bargaining agreements and government regulation are perceived as preconditions with which each company must comply, employees' KSAs motivate owner-managers to devise their employee relations arrangements in such a manner that the employment conditions compare favourably with other companies. All owner-managers indicate that firm performance is very much dependent on employees' KSAs. Therefore, they are keenly interested in motivating employees to develop and deploy their potential. In order to accomplish this, they address those employee needs and interests that further employees' commitment and positive attitude towards their own development: employment security, direct voice opportunities, and job satisfaction. Consequently, these components of the parent company's employee relations arrangement are the most likely to be transferred to the foreign subsidiaries, at least if the subsidiary has been established from market- or resource-seeking motives.

Owner-managers distinguish between union power at the company level and at the national level. Union power at the company level is virtually non-existent. Owner-managers' positions regarding unions are generally neutral: they believe unions play a positive role in protecting employee rights, in general, but determine, in this respect, no part for them in their own companies. Works councils are present at the parent companies of Paint Co and Rubber Co, however, their power is quite lim-

ited. Both owner-managers appear to view the works council mainly as an instrument to create support for management decisions. Their benefit for indirect participation in SMEs is seen as rather limited due to an alleged lack of employees suitable for functioning in such a body. A number of owner-managers indicate that – for both home and host country – blue-collar employee power, in particular, is moderated by the availability of alternative employment opportunities.

Overall, self-regarding values motivated most owner-managers to take employee needs and interests into consideration as a means to an end. Other-regarding values motivate them to take account of these needs and interests in a non-opportunist manner and to adhere to this policy as much as possible including during times of disappointing firm performance. However, in one case – Packing Co – employee needs and interests in their own right moderated by employee power form the foundation of the employee relations arrangement and, thus, can be classified as employee-oriented CSR. Hence, most owner-managers characterise their employee relations arrangements as HRM-based as is depicted in Figure 9.1. This finding emphasises a basic difference between HRM-based arrangements and employee-oriented CSR. In HRM-based arrangements, employee power moderated by other-regarding values is the basis while in employee-oriented CSR, the basis is formed by other-regarding values moderated by employee power.

Figure 9.1 Owner-managers’ assessment of the parent companies’ employee relations arrangements



The HR practices employed in the employee relations arrangements are largely informal in nature, performance appraisals being a notable exception. Pay structure in most parent companies is transparent and professionalised as well, but this is due primarily to the requirements dictated in collective bargaining agreements. It may not be coincidental that this does not pertain to the companies that are not encompassed by a collective bargaining agreement. All owner-managers believe the organisational climate to be a more important instrument than formal, advanced HR practices for meeting both employee needs and interests and the needs and interests of the company.

The relatively low scores on HR policies and practices proceeding beyond the requirements of government regulation and collective bargaining agreements rather show that employee-oriented CSR is difficult and costly to achieve in prosperous and highly regulated countries – especially for SMEs with their limited resources. This may also explain why owner-managers emphasise the significance of an employee-friendly and informal organisational climate for meeting employees' work-related needs and interests as this is much easier to accomplish, especially in SMEs.

9.2.2 Parent companies: The point of view of employees

In all of the cases studied, employees perceive a medium to high level of other-regarding values to underlie their firms' employee relations arrangement. The overall employee assessment of owner-managers' level of other-regarding values appears to be even higher than the assessment by the owner-managers themselves. The owner-managers' other-regarding values are evidenced primarily in the quality of the organisational climate. Employees experience design and implementation of HR practices as a proxy of how owner-managers assess their power.

On average, the firms' organisational climates are assessed fairly positively. The most appreciated aspect is the overall relationship with management. In this aspect, the informal nature of SMEs is given full justice. Conspicuously, in almost all of the cases, with the exception of Packing Co, transparency is the least positively rated component of the organisational climate. Clearly, employees and owner-managers have different opinions on the definition and content of open communication and transparency. Whereas owner-managers believe that they communicate openly and transparently, employees indicate that this leaves much to be desired. This

may be related to the unwillingness of owner-managers to disclose financial information and giving employees sufficient voice in decisions affecting their job and their working conditions. Lack of formal grievance procedures that enable employees to safely voice possible dissatisfaction also plays a part.

Certain owner-managers have recently renovated their firms' organisational climate by changing management's top-down approach into a bottom-up one. In this way, they attempted to encourage blue-collar employees, in particular, to use voice more freely in suggesting improvements in production and business processes and to stimulate a greater feeling of responsibility for the quality of their work. However, it turns out that only a radical breach in management approach to employees in itself does not lead to an equally radical breach in employee attitudes toward their work and toward the firm. In the experience of the owner-managers concerned, a new organisational climate can only gradually be developed by means of a consistent policy. Producing a new organisational climate becomes even more difficult if, as at Rubber Co, new policies are introduced that are in contrast with the needs and interests of employees.

Employees are aware that their KSAs form a source of power with regard to fulfilment of those work-related needs that boost their performance; the HR practices regarding job discretion, working conditions, courses and training, and internal labour market were rated higher than the HR practices affecting employees' more private needs such as work-life balance policies. Though, in none of the companies did employees feel that direct union influence supports their position, in general, they do not blame this on an adversarial management position.

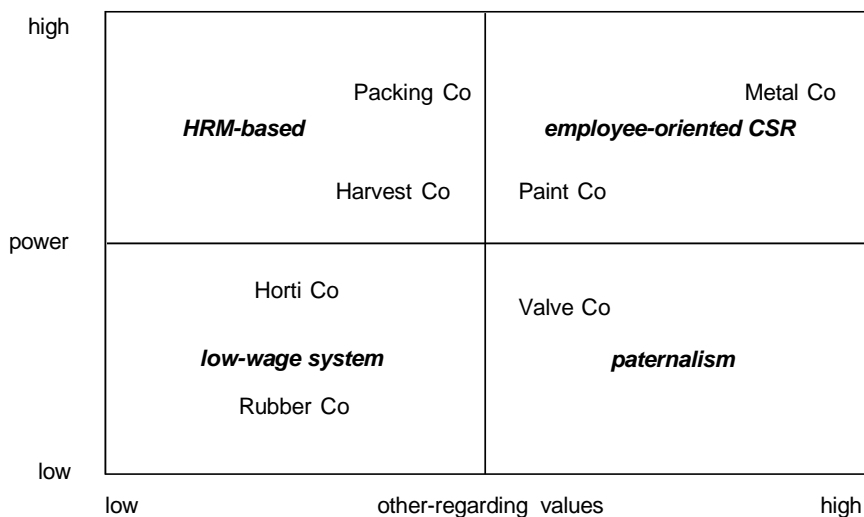
In all of the firms, employees appreciate the organisational climate more than the HR policies and practices. Furthermore, the assessment of HR policies and practices between firms is more similar than employees' rating of organisational climates. Consequently, the differences in employees' classification of their employee relations arrangements are due predominantly to differences in organisational climates.

While employees perceive the influence of owner-managers' other-regarding values on design, implementation, and working of the firm's employee relations arrangement as greater than indicated by the owner-managers themselves, they rate the influence of their power more or less the same as the owner-managers. This is emphasised by the fact that employees' rating of the outcomes of the employee relations arrangement is higher than that of the HR practices component and is comparable to their appreciation of the firm's organisational climate.

Seemingly, for employees as well as owner-managers, the organisational climate is more significant for shaping the employment relationship than the concrete HR practices. However, since the correlation between HR practices and employee outcomes is higher than between organisational climate and employee outcomes, see Table 8.8, it can be concluded that, although they rate organisational climate higher than HR practices, employees consider HR practices more relevant to meeting their needs and interests. Nonetheless, assessment of employee outcomes is, in certain cases, positively moderated by the level of perceived owner-manager's other-regarding values. Figure 9.2 demonstrates that, on average, employees seem to assess their firms' arrangements more positively than the owner-managers, Rubber Co being a notable exception. It is striking that the employees of two of the three companies – Valve Co and Metal Co – whose employee relations arrangements are typified as employee-oriented CSR rate their firms' arrangement better than the owner-manager does, apparently due to a high level of perceived other-regarding values and a highly perceived appreciation of their KSAs by the owner-manager. The arrangements of Paint Co, Rubber Co, and Horti Co are perceived as HRM-based.

All owner-managers maintain that their employee relations arrangements have increased employee performance. This concurs with the observation that, in all cases, employees' commitment to the firm is at a comparable or higher level as their appreciation of the employee outcomes of the employee relations arrangement.

Figure 9.2 The owner-managers' and/or subsidiary managers' assessment of the subsidiaries' employee relations arrangements



However, this effect seems to be most prominent at Packing Co, Valve Co, and Metal Co, i.e., those companies whose employee relations arrangements are typified as employee-oriented CSR by their employees. Low turnover and absenteeism assist in keeping costs at a minimum while commitment and loyalty, taking initiative, and a willingness to put forth extra effort, if necessary, contribute to both cost savings and productivity. At Rubber Co and Horti Co, the effects of the employee relations arrangement on employee commitment and performance are more ambiguous. In both of these companies, there is dissatisfaction among blue-collar workers regarding important aspects of the employee relations arrangement which, in the case of Rubber Co, is expressed in a high level of absenteeism and, at Horti Co, in a refusal to embrace flexibility.

9.2.3 Subsidiaries: The point of view of owner-managers

With regard to their foreign subsidiaries, all owner-managers profess that subsidiary employees' legitimacy as stakeholders is equally high as that of parent company employees. Notwithstanding, with the exception of Metal Co and Harvest Co, the salience of the subsidiary employees to the owner-managers is lower than the salience of the parent company employees. Subsidiary employees generally have less power because of absence of union power and a lower level of effective government regulations compared to the Netherlands. With regard to employee power, the investment motive plays a significant role; in the subsidiaries acquired for efficiency-seeking motives, employees' KSAs are less important than in the other subsidiaries.

The lower salience of subsidiary employees is related to their lower proximity to the owner-manager compared to the parent company employees. Interaction between the owner-manager and subsidiary employees is hindered, first, by the physical distance which results in much less physical presence of the owner-manager in the subsidiary than in the parent company. Second, interaction is more difficult because of the language barrier between owner-manager and subsidiary employees. Only when owner-managers speak the host country's language and when they are frequently present in their subsidiaries is the subsidiary workforce salience to the owner-manager not negatively affected by proximity. Proximity is also related to institutional distance. Without exception, the owner-managers asserted the institutional distance between home and host countries to

be immense. This does not pertain so much to the differences in regulation as it does to the differences in cognitive and normative institutions. The lack of proximity and the significant institutional distance place most local subsidiary managers in a pivotal position with regard to the design, implementation, and functioning of the subsidiary's employee relations arrangement. Consequently, subsidiary management plays an essential role in the design and implementation of the employee relations arrangements.

With regard to the core elements of institutional distance, all owner-managers refer to the lack of trust in employment relations and in society, in general, and to the important role of hierarchical status in the host countries which they believe to be in opposition with the character of the employee relations arrangement they favour. These differences result in an organisational climate that is not amenable to the way they want to run their companies. In the parent companies, owner-managers perceive the smooth running of the production system being constructed on mutual trust between management and the workforce and on employees taking initiative and exercising job discretion. This is considered to result in more effective and efficient production while simultaneously freeing up management time to focus on business strategies. Since owner-managers would like to see this situation prevail as well in their subsidiaries, they have an incentive to transfer at least the organisational climate component of their parent companies' employee relations arrangement to their subsidiaries. With regard to the transfer of HR practices, if striven for, the focus is on improving workplace conditions, especially those related to health and safety issues. Only Metal Co pays explicit attention to employees' self-actualisation by means of its internal labour market policy and formal performance appraisal. In general, HR practices in subsidiaries have an even more informal character than in the parent companies.

The probability that owner-managers effectuate their transfer intent is negatively affected by a number of factors: efficiency seeking as an investment motive, partial ownership of the subsidiary, and a brownfield investment mode. A proactive employee attitude is more relevant for market seekers and, to a somewhat lesser extent, resource-seekers than for efficiency seekers. Valve Co's and Rubber Co's foreign investments were motivated by efficiency-seeking considerations.

Secondly, the ownership structure matters: transfer to subsidiaries in which owner-managers have a majority share is more susceptible to possible resistance by local management because their power base is supported by their minority share. Fur-

thermore, the mere fact that the subsidiary is not wholly owned may diminish the owner-manager's commitment to the subsidiary employees since the owner-manager may perceive them as local management's employees rather than as parent company employees. Partial ownership of the subsidiary applies to Rubber Co and Horti Co.

In the third place, it is easier to transfer practices to greenfield sites where there are no vested interests to obstruct transfer than to brownfield sites where the new practices must displace existing practices. Only the subsidiaries of Metal Co and Paint Co are greenfield sites. The owner-managers of Metal Co, Harvest Co, Paint Co, Valve Co, and Packing Co, in order of intensity, have initiated most efforts in transferring their preferred employee relations arrangement. With the exception of Valve Co, the companies in which (almost) all identified factors negatively affecting transfer applied, indeed did not engage in the transfer of elements of the parent companies' employee relations arrangement beyond external demands such as ISO certification.

9.2.3.1 Institutional entrepreneurship

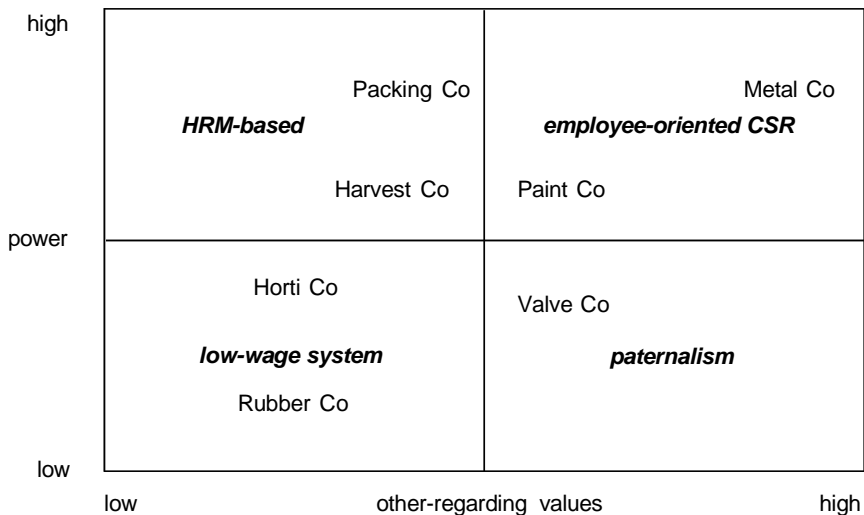
In consideration of the large institutional distance to be bridged, effectuation of transfer intent requires the employment of institutional entrepreneurship as has been proposed in the conceptual model. Power of meaning is required to delegitimise the existing normative and cognitive institutions and to change these institutions for both subsidiary management and subsidiary workforce. This implies that institutional entrepreneurship begins with creating proximity as a necessary condition for being able to exercise power of meaning. The owner-managers of Metal Co and Harvest Co fulfil this condition best by their frequent presence and their command of the host-country language.

All owner-managers exhibit an understanding of the nature and effect of the institutional differences between the host country and the Netherlands. The owner-managers of Valve Co, Paint Co, Harvest Co, and Metal Co provide arguments to their subsidiary's workforce regarding the inadequacy of the present organisational climate and present the parent company type or Dutch type as the alternative. Packing Co's owner-manager does something similar by attempting to convince the subsidiary manager of the advantages of the parent company's organisational climate during the subsidiary manager's visits to the parent company. Finally,

the owner-managers of Paint Co, Harvest Co, and Metal Co have initiated efforts to implement the desired institutional changes. The result has been that the organisational climates in these subsidiaries have become most similar to the type preferred by the owner-managers in question.

Only owner-managers with fully owned subsidiaries consider an employee-friendly organisational climate to be an important instrument for meeting both employee needs and interests and the needs and interests of the company. Scores regarding policies and practices exceeding the requirements of government regulation are generally higher than for the parent companies in the Netherlands. This is partially due to the fact that arrangements proceeding beyond legal regulation have been instituted by owner-managers of their own accord. Furthermore, as the regulations on working conditions are less extensive in the host countries than in the Netherlands, providing practices that go beyond government legislation can be attained easier and at lower cost than in the Netherlands.

Figure 9.3 The owner-managers' and/or subsidiary managers' assessment of the subsidiaries' employee relations arrangements



It is no wonder, then, that – due to the variation in institutional entrepreneurship interventions – the variety in employee relations arrangements among the foreign subsidiaries is greater than among the parent companies. As Figure 9.3 depicts, based on the management assessments of employee legitimacy and power, one subsidiary has a paternalistic arrangement, one a low-wage arrangement, two arrangements can be classified as HRM-based, and the two that can be typified as employee-oriented CSR include Metal Co and Paint Co. Rubber Co's subsidiary has, in fact, a dual system: a low-wage arrangement for blue-collar workers and an HRM-based arrangement for white-collars.

9.2.4 Subsidiaries: The point of view of employees

In all of the subsidiaries, employees perceive management's other-regarding values as underlying the employee relations arrangement, though apparently to a lower extent than in the parent companies. This is partially related to the effects of institutional distance. Furthermore, the discrepancy between parent company and subsidiary perceived level of other-regarding values may be related to the fact that for subsidiary employees, since they interact primarily with local management in most subsidiaries, the other-regarding values of local management are more relevant than the other-regarding values of the owner-manager. Additionally, interaction between most owner-managers and subsidiary employees is complicated by the language barrier. The significant deficiency between the perceived and professed level of the owner-manager's other-regarding values at Metal Co is remarkable when considering the owner-manager's frequent presence and his command of the host-country's language. This may imply that the implementation of institutional change has not been as successful as suggested by its owner-manager.

In none of the companies did the employees feel as if their KSA-based power was supported by direct union influence. This may be related to an adversarial management position. Only one respondent stated to be a union member. Most respondents did not fill in the items regarding union influence and, those who did, indicate in great majority that management's stance towards union membership is neutral, at best. The high percentage of missing values in the items on unions could also suggest that management is opposed to union influence in the firm.

On average, the subsidiaries' organisational climates are assessed positively. Just as in the parent companies, transparency is the least positively evaluated component of the organisational climate. Disclosure regarding the status of the firm is more limited than in the parent companies. Often, free use of voice is also assessed rather negatively. Based on interviews with employees, this appears related to the role of hierarchical status in the subsidiaries, in particular, with regard to blue-collar workers. Other than the parent company's employees, subsidiary employees assess HR practices and the organisational climate as, more or less, equal. This may indicate that employees perceive the influence of management's other-regarding values on design, implementation, and functioning of the firm's employee relations arrangement to be in the same order as the influence of their power.

With regard to HR practices, employees perceive that their current KSAs are appreciated positively. This is demonstrated from the fact that the HR practices directly affecting the use of employees' current KSAs – job discretion and working conditions – are generally assessed more positively than the other HR practices which are related to the development of their KSAs or to employees' private needs and interests. However, at Valve Co, Packing Co, and Harvest Co, working conditions are assessed negatively while, at Metal Co, the level of job discretion is considered low.

Figure 9.4 Categorisation of employee relations arrangements as perceived by subsidiary employees as a combination of organisational climate and overall HRM policy

HR practices	high	<p><i>HRM-based</i></p> <p>Packing Co</p> <p>Harvest Co Paint Co</p> <p>Valve Co / Metal Co</p>	<p><i>employee-oriented CSR</i></p>
	low	<p>Rubber Co</p> <p><i>low-wage system</i></p>	<p>Horti Co</p> <p><i>paternalism</i></p>
		low	high
		organisational climate	

In the opinion of employees, the subsidiaries' employee relations arrangements are far more similar than from the perception of management as is illustrated by Figure 9.4. The employees consider almost all arrangements as HRM-based. Rubber Co and Horti Co are the exceptions. Horti Co's arrangement is classified as paternalism which is more positive than the characterisation based on management's assessment. Compared to management assessment, employee assessment of the employee relations arrangement, on average, is more negative, with Horti Co as the exception.

Across the board, the subsidiaries' employee relations arrangements, to some extent, provide for their employees' overall work-related needs and interests. Valve Co and Packing Co appear to perform best in this respect. Only blue-collar employees at Rubber Co rate their outcomes of the employee relations arrangement rather negatively. In this aspect, the difference between the blue- and white-collar rating is exceptionally significant which reflects the observation that Rubber Co, in fact, maintains two different employee relations arrangements: one for blue-collar and another for white-collar employees.

Surprisingly, employees' commitment to the firm is greater than was expected on the basis of their assessment of the employee outcomes of the employee relations arrangement. This may be due to a social desirability bias in the answers to the commitment items. An alternative, more likely, explanation is that the employment terms in the subsidiaries compare favourably to the regular employment terms in Polish and Estonian companies (see Chapter 5). The percentage of permanent contracts, for example, is much higher than average in the host countries. Furthermore, wages and salaries are paid on time, overtime is paid, and the companies make no use of envelope wages.

The owner-managers state that the subsidiaries' employee relations arrangements have had positive effects on employee performance through employee commitment. The most prominent effects reported by subsidiaries are low rates of turnover and absenteeism which result in important cost savings. Some subsidiaries, e.g., Packing Co, also indicate that productivity is increased due to improvements in processes suggested by employees and by the problem-solving attitude of employees. Overall, however, the positive effect of the employee relations arrangement on employee performance is less than in the parent companies.

9.2.5 Changes in the conceptual model

As a result of the empirical research, proposition 4b regarding the relationship between the employee relations arrangement and employee outcomes and proposition 5 on the relationship between employee outcomes, commitment, and performance must be modified. In the parent companies, the assessment of the HR practices demonstrated a higher correlation with the rating of the employee outcomes than the appreciation of the organisational climate. This implies that the construct of home-based employee-oriented CSR in the conceptual model must be divided in its components into the organisational climate and the HR practices.

In contrast to the parent companies, the positive correlation of the perceived level of management's other-regarding values with the organisational climate in the subsidiaries is higher than its correlation with the HR practices. Apparently, subsidiary employees perceive HR practices as a proxy of their power to a greater extent than parent company employees. On the other hand, just as in the parent companies, their rating of employee outcomes exhibits a higher correlation with their assessment of the HR practices than with their appreciation of the organisational climate. This implies that, for both the parent companies' and the subsidiaries' employees, a distinction must be made between organisational climate and HR practices regarding their effects on employee outcomes. This is expressed by changing

Proposition 4b: *The firm's overall HR policy exerts a stronger influence on the employee outcomes of employee-oriented CSR than the organisational climate*

With regard to employee commitment, however, the correlations with the organisational climate and the HR practices in the parent companies are approximately the same. Furthermore, both are higher than the correlation of employee outcomes with employee commitment. This relationship, though, is different for the subsidiary employees. Strikingly, where commitment in the parent companies is correlated strongest to the assessment of the employee relations arrangement, in the subsidiaries, it is correlated strongest to the assessment of the employee outcomes. This may signify better employment terms in these subsidiaries than in domestic companies. Consequently, proposition 5 indicating the relationship between the assessment of employee-oriented CSR and employee commitment and employee performance must also be divided into two segments:

Proposition 5a: *In the parent companies, employee satisfaction with employee oriented CSR positively affects employee performance through increased commitment to the firm*

Proposition 5b: *In the subsidiaries, employee satisfaction with the outcomes of employee oriented CSR positively affects employee performance through increased commitment to the firm.*

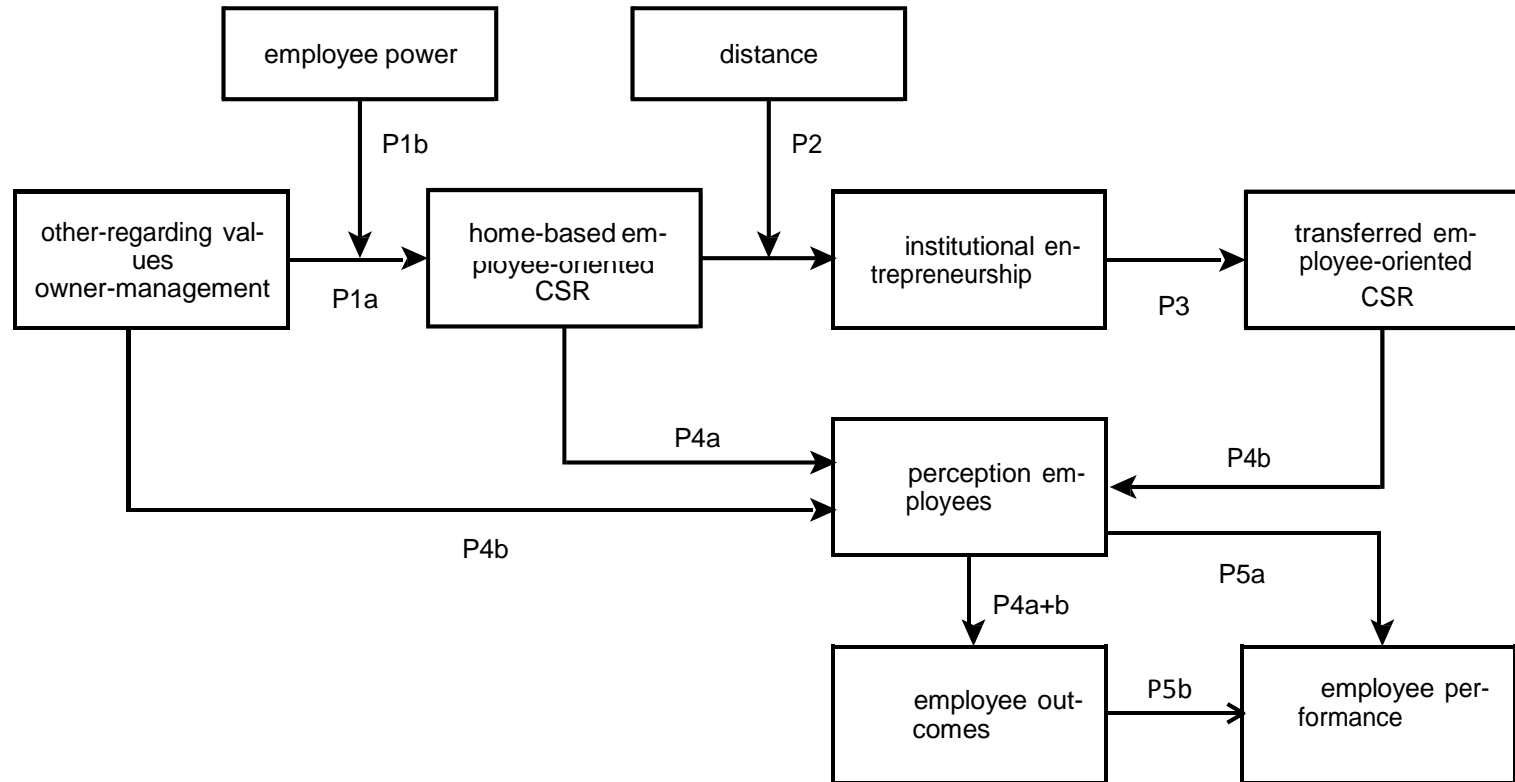
Figure 9.3 presents the revised conceptual model. Up to now, I have focused only indirectly on differences between home and host country as well as differences between blue-collar and white-collar employees. In the following section, these differences are analysed in greater detail.

9.2.6 Comparisons across countries and functional categories

Comparing the findings regarding parent companies and subsidiaries, certain general differences are prominent. Both perceived other-regarding values of management and organisational climate, on average, are less positively assessed in the subsidiaries than in the parent companies. Another conspicuous outcome is that where, in the parent companies, organisational climate is generally rated lower than perceived other-regarding values, subsidiary employees, in contrast, rate organisational climate higher than perceived other-regarding values. Differences in trusting attitudes and weaker owner-manager influence in the organisational climate may be factors contributing to explaining this difference. The relatively low correlation of the perceived level of management's other-regarding values with the assessment of the employee relations arrangement for the subsidiary employees seems to confirm this.

The lower subsidiary assessment of the organisational climate is related to the relatively low ratings of free use of voice and especially transparency. In the subsidiaries, just as in the parent companies, the relational atmosphere with management is assessed most positively. The perceived level of management's other-regarding values will be evidenced most pointedly in mutual personal relationships. That transparency and free use of voice are rated less positively than personal relationships is related to the fact that the arrangements concerned as well as the overall HR practices have an even more informal character than in the parent companies. This observation also explains the lower assessment of HR practices

Figure 9.3 The adapted conceptual model of introduction and international transfer of employee-oriented CSR



by subsidiary employees compared to parent company employees. It is not surprising, then, that the appreciation of the outcomes of the employee relations arrangement is less in the subsidiaries than in the parent companies.

These differences are associated with the differences in employee power and employee proximity as perceived by owner-managers, resulting in improved accommodation of the parent company arrangements to the needs of the home country employees compared to the situation in the subsidiaries. In consideration of this, it is striking that there is no significant difference in employee commitment between the two groups. Subsidiary employee commitment correlates strongly with employee outcomes. Apparently, the subsidiary employees are of the opinion that their outcomes compare favourably with the outcomes of alternative employment possibilities in domestic companies – see Chapter 5 – that their commitment is positively influenced.

In both home and host countries, the correlation between HR practices and employee outcomes is higher than between organisational climate and employee outcomes. This indicates that employees consider HR practices to be more relevant than organisational climate in meeting their needs and interests. Nonetheless, they rate, at least in the home country, the organisational climate better than the HR practices. This may well be because the prevailing informal nature of HR practices obscures their transparency for employees. Informality represents a breach of procedural justice which can also negatively affect distributive justice, especially in Eastern Europe as these are low-trust countries in which granting a benefit to a particular person may be conceived as favouritism. This risk is exacerbated by the fact that labour contracts are negotiated on an individual basis precluding knowledge of each other's employment terms. Not coincidentally, transparency happens to be the least appreciated component of organisational climate in both home and host countries.

Furthermore, home-country employees consider different aspects as being important than those that host-country employees deem significant. Commitment of employees in the home country is more related to the perceived level of the owner-managers' other-regarding values and the employee relations arrangement itself than to the outcomes of this arrangement. This finding confirms the conclusions in the literature (see e.g., Alas & Rees, 2006; Borooah, 2009; Guest, 2008) that employees in Eastern Europe attach more importance to employee outcomes that are directly relevant to their subsistence such as pay and employment security

than employees in Western Europe. This conclusion, however, also applies to the distinction between blue-collar and white-collar employees as the outcomes of the employee relations arrangement are more important to elicit commitment from blue-collar employees than from white-collar employees. This also confirms the suggestion by industrial relations researchers such as Riisgaard (2005), Marens (2012) and Egels-Zandén (2009b) that union power and government regulation are required to guarantee employment security and a fair effort-reward bargain to all employees.

Across the board in both parent companies and subsidiaries, blue-collar employees are less satisfied with all aspects of their firms' employee relations arrangements than white-collar employees. The parent companies of Packing Co and Valve Co were the only exceptions. Furthermore, the parent companies' white-collar employees rate the perceived level of management's other-regarding values and the employee relations arrangement significantly better than the subsidiaries' white-collar employees. Accordingly, it is no wonder that employee-oriented CSR has only been identified for parent companies predominantly consisting of white-collar employees.

9.3 DISCUSSION

This research, in fact, has been a response to the appeal by authors such as Paauwe (2004), Legge (2007), Guest (2007), and Greenwood (2013) to establish increased morality in HRM. To accomplish this, employee relations arrangements have been classified along an economic dimension referred to as employee power and a moral dimension described as other-regarding values. The beginning point and core of the conceptual model describing how and to what degree morality affects employee relations arrangements in (multinational) SMEs is the salience of employees as stakeholders according to the owner-manager. Following Mitchell *et al.* (1997) and Driscoll and Starik (2004), I expected salience to depend upon employees' legitimacy, power, urgency, and proximity. Agle *et al.* (1999) relate management's other-regarding values to all attributes and contend that management's self-regarding values lead to exclusively serving the interests of external shareholders. In most SMEs, however, there are no external shareholders. In the case-study companies, the owner-managers' other-regarding values appeared to be related to legitimacy and their self-regarding values to power – after all, employee power determines the extent to which owner-managers can pursue their own interests in the form of profit maximisation.

Whereas both Mitchell *et al.* (1997) and Driscoll and Starik (2004) argue all attributes affect stakeholder salience directly, I find that urgency and proximity are moderators. Urgency proves to be a moderator of employee legitimacy; owner-managers feel more compelled to act in the employees' interests when they perceive these to be critical, such as unexpected work-life balance issues or the workplace conditions in both subsidiaries and parent companies. Proximity moderates both employee legitimacy and employee power. Owner-managers found it difficult to gain insight into both subsidiary employees' needs and interests and in their KSA-based power and work attitude because of the significant institutional distance and the language barrier.

However, proximity was found to not only negatively moderate subsidiary employee salience but also the salience of parent company blue-collar employees compared to white-collar employees despite owner-managers discerning only functional distinctions between the two groups. Fox (1974) contends that employees in low-discretion jobs, such as most blue-collar employees in the case-study companies, believe that management considers them expendable. They will only develop trust in management if management exhibits trust in them to contribute willingly to achieving the company objectives and if management increases job discretion. The statement by many owner-managers that production activities are too rigid to allow for much job discretion and the observation that blue-collar employees rated voice and job discretion less positively than white-collar employees may indicate that blue-collar employees believe that owner-managers do too little to eliminate their feeling of expendability.

Employees are more likely to positively appreciate their employee relations arrangement if it is established not only on economic rationality but also on other-regarding values (Legge, 1998). Employees recognise other-regarding values in open, two-way communication, information-sharing, participation, employment security, personal development, balance between working and private life, and cooperative relations with management (Edgar & Geare, 2005; Freeman & Rogers, 1999; Wiley, 2012). These aspects also guarantee the procedural justice employees are searching for in an organisation (Van Buren, 2005). The awareness that employees' needs and interests are of importance is conducive to positive relationships between the workforce and the owner-manager (Wood & Jones, 1995) which stimulates employees' dedication, effort, and initiative (Barney, 1986) just like their willingness to trust management (Paauwe, 2004). Although all owner-managers profess that these aspects are incorporated into their firms' employee relations arrangements both at home and abroad, in the collective perception of

employees and owner-managers, only one parent company in my research has been completely successful in this respect. The apparent difficulty to base policy intentions primarily on other-regarding values instead of self-regarding values is similar to what Guest and Peccei (2001) ascertained in their research regarding partnership.

Important issues in this aspect are transparency and voice. Wilkinson *et al.* (2007) discovered that employee involvement in SMEs is largely informal in nature which is fostered by the small physical and hierarchical distance. The involvement processes employed, however, did not provide employees with the feeling that they can actually exert influence on the decision-making process. In the current study as well, employees – parent company blue-collar employees and subsidiary employees, in particular – indicate that most companies' communication and participation practices are very unsatisfactory. As in Wilkinson *et al.*'s (2007) study, most employees in these companies do not appear to be dissatisfied by this situation when considering the low turnover in the companies. Combined with owner-managers' satisfaction with employee performance, this may indicate employees not decreasing their efforts out of a sense of loyalty to the firm (Hirschman, 1970). The self-reported commitment of employees also points in this direction. This does not pertain only to the parent company employees but also for the subsidiary employees.

The owner-managers fully endorse the view in the SHRM literature that employees are a significant source of sustainable competitive advantage. However, where many authors in the strategic HRM literature, e.g., Lado & Wilson, 1994; Wright *et al.*, 1994, distinguish three elements of intrinsic employee power – knowledge, skills, and abilities – the owner-managers of the case-study companies add a fourth one referred to as work attitude which consists of the employee's propensity to make autonomous decisions and to take initiative. From an employee perspective, the extrinsic sources of their power – government legislation and union power in the form of collective bargaining agreements – are important buttresses of their intrinsic power. The lower assessment of the employee relations arrangements and their outcomes in the host countries is related to the fact that inclusion of important elements of the arrangements are left to the individual firms instead of being prescribed by government and collective bargaining contracts like in the Netherlands.

The owner-managers' point of view also concurs, in my opinion, with the argument of the Harvard school that employee commitment is crucial to elicit em-

ployees' full potential contribution to achieving competitive advantage. They recognise that cooperative relationships between management and workforce require an organisational climate characterised by mutual trust and, thus, by the free exercise of voice and employment security. In this respect, De la Cruz Déniz- Déniz and De Súa-Pérez (2003) rightly argue that lapses into opportunism endanger employee commitment as is illustrated by the reaction of the blue-collar workers at the parent companies of Rubber Co and Horti Co against management decisions that they believe to be driven by opportunism. Thus, it is crucial that employees perceive other-regarding values as underlying the employee relations arrangement. That employees perceive these values at a lower degree than claimed by the owner-managers seems related to owner-managers having reservations in giving more voice and transparency than required by economic rationality.

Employee commitment is more likely to result from the social exchange than the economic exchange aspects of the employment relationship (Blau, 1989; Tsui *et al.*, 1997). Social exchange, involving the exchange of mutually valuable resources such as trust, respect, and knowledge (Lado & Wilson, 1994), is effectuated in the organisational climate of the firm rather than in its HR practices. This effectuation is, in my opinion, reflected in the owner-managers' conviction that an employee-friendly organisational climate is more relevant in generating employee commitment than formal, advanced HR practices. However, it may also have been inspired by a lack of professional HRM expertise – only three parent companies and one subsidiary have HRM expertise at their disposal – and by the costs involved in employing these practices (Wilkinson *et al.*, 2007). Furthermore, owner-managers often fear that formality leads to inflexibility. Still, the downside of the informality of HR practices and organisational climate is the danger of opaqueness which negatively affects employees' feelings of procedural justice which may subsequently negatively affect employee commitment.

Institutional entrepreneurship and employee performance

Across the board, the owner-managers argue that especially their parent companies' organisational climate strengthens firm performance by advancing a proactive work attitude and commitment among the home-country employees. They expect transfer of this organisational climate to the subsidiaries to achieve the same results. Oliver (1991), however, distinguishes with respect to the use of resources between RBV's economic rationality of profit maximisation and institutionalist normative rationality based on maintaining social legitimacy (see Chapter 2). The use of employees as propagated by the owner-managers – with the exception of Harvest Co and Rubber Co – is contradictory to the normative rationality in the

host countries. Where the neo-corporatist industrial relations environment in the Netherlands – due to the central role of consensus implying use of voice and participation (Visser & Hemerijck, 1997) – is optimally appropriate for creating a proactive work attitude and employee commitment, the host-country pluralist bargaining industrial relations environment is rather inhospitable (see Chapter 5). The lack of mutual trust between employers and employees and the role of hierarchical status within companies is especially impeding. The levels of employer-employee interdependence, trust, and job discretion are much lower in the host countries than in the home country (Crouch, 1993; Tempel & Walgenbach, 2007).

Organisational climate

The owner-managers consider the company's organisational climate as the component of the employee relations arrangement that induces the desired employee work attitude and commitment. Therefore, it is this component of the employee relations arrangement they would prefer to transfer abroad. However, this is precisely the part that is most sensitive to cognitive and normative institutional differences and limitations. The owner-managers attempt to construct an organisational climate characterised by mutual affect-based trust as in the parent companies. The statements of local management regarding relations with employees, however, are permeated by lack of trust. Lämsä and Pucetaite (2006) argue that building affect-based trust in low-trust countries such as Poland and Estonia is not possible prior to building cognition-based trust which can be incited by means of formal, transparent policies and by sticking to the rules dictated in these policies. This necessitates the use of institutional entrepreneurship to change the current cognitive and normative institutional environment into one more receptive to fostering a proactive employee work attitude and employee commitment. In other words, institutional entrepreneurship is required to bridge the gap between internal and external legitimacy of the desired employee relations arrangement (Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991).

Transfer and institutional entrepreneurship

Five owner-managers have initiated efforts to transfer the organisational climate component of their employee relations arrangement to their subsidiaries. Most of them left the HR practices component to subsidiary management. In only one case, Metal Co, has the entire employee relations arrangement been constructed on home-country institutions. The remaining two owner-managers left the entire employee relations arrangement to local management. In terms of Ferner and Quintanilla's (1998) typology of subsidiary employee relations arrangements, the ar-

rangements in the case-study subsidiaries can be typified in order of importance as cross-national isomorphism, local isomorphism, and corporate isomorphism. This finding differs from Meardi's (2013) finding that large western MNCs in the Czech Republic resorted primarily to local isomorphism.

Although some owner-managers passed through all stages of institutional entrepreneurship – understanding the current institutional environment, emphasising its deficiencies, and presenting superior alternatives (Battilana *et al.*, 2009; Phillips *et al.*, 2009) – they only succeeded in instituting new practices. According to Kostova (1999) and Björkman and Lervik (2007), success of transfer and thus, in this case, of institutional entrepreneurship, is complete when the new practices are internalised by employees and integrated into the business processes. Judging from the employee response, success in these respects was, at best, only partial. An explanation for this limited success is that owner-managers attempted to transfer the organisational climate instead of the HR practices. Not only does this presuppose the existence of affect-based trust, it also leads to a significant degree of informality in the employment relationship. Such informality is, according to Lämsä and Pucetaite (2006), counterproductive to the building of cognition-based trust which, in low-trust countries, is a prerequisite for generating affect-based trust. Moreover, transfer success requires support from local management and, in some cases, this support has been less than wholehearted.

Recapitulation

Reviewing the conceptual model, it can be concluded that it adequately describes the introduction and transfer of employee-oriented CSR despite the fact that, according to employees, only three parent companies engage in employee-oriented CSR. First, the model facilitates distinguishing employee-oriented CSR from HRM-based arrangements; employee-oriented CSR is based on the owner-manager's other-regarding values moderated by employee power while HRM-based arrangements are built on employee power, moderated by the owner-manager's other-regarding values.

Second, the model allows analysing the influence of the host-country institutional environment regarding the transfer intent of owner-managers as well as on the transfer results and, thus, emphasising the necessity of exercising institutional entrepreneurship. For the case-study companies, the host-country institutional environment has proven to negatively affect transfer of the preferred practices. Furthermore, the level of institutional entrepreneurship that has been exercised has been insufficient to effectively counter this negative influence.

Finally, the model also makes it possible to analyse how employee-oriented CSR influences employee performance through its effect on commitment. Admittedly, HRM-based and paternalist arrangements also positively affect employee performance through increased commitment primarily in the form of reduced turnover and absenteeism and higher quality due to a reduction in errors. The effect of employee-oriented CSR on employee performance, however, is both stronger and wider ranging, incorporating effects on productivity through a more proactive attitude of problem-solving among all employee categories.

9.4 LIMITATIONS AND FUTURE RESEARCH

The research approach has some serious limitations that have partially been addressed in order to overcome them with a mixed-methods approach and partly require additional future research. First, the research subject may have caused bias in the selection of the case study companies as it is plausible that only those owner-managers who have agreed to cooperate are those who consider their firm to have a suitable employee relations arrangement. This risk is augmented by the fact that participation in case-study research requires a considerable investment of time from the company. Nonetheless, this research has demonstrated the adequacy of the conceptual model describing how, in the case-study companies, the other- and self-regarding values of the owner-manager affect design and implementation of their employee relations arrangements, the appreciation of its employee outcomes, as well as employee commitment. This also pertains to the intention of the owner-manager to transfer (parts of) the arrangement to foreign subsidiaries and the factors affecting transfer intent and transfer success. Consequently, this facilitates future quantitative research to test to what extent the conceptual model can be applied to multinational SMEs, in general.

An additional limitation is the manner in which employees have been selected for the qualitative research component. The selection has been conducted by the owner-managers which has resulted in an overrepresentation of white-collar employees. Thus, there is a genuine possibility that the opinions expressed by the employee interviewees are not representative for the total employee population of the firms concerned. This limitation has been countered by means of a questionnaire among the entire workforce of the companies. This enabled the researcher to establish that blue-collar employees' perception on and appreciation of the

firm's employee relations arrangement differed from white-collar employees. However, it is still essential to explore the deeper reasons behind this difference.

Therefore, future qualitative research may identify why blue-collar employees judge the employee relations arrangement and its outcomes differently from white-collar employees and may offer insights into how owner-managers can better address the specific blue-collar needs and interests. Moreover, it has been established that, although employees consider HR practices more relevant to addressing their needs and interests, they do not overly appreciate the actual HR practices used. Future research may address the question of how to design HR practices in SMEs such that they better meet employees' needs and interests.

Third, the on-site interviews in Poland were conducted by a Polish interviewer who was instructed by the author. In semi-structured interviews, however, acquiring information also depends on the way the interviewer responds to interviewees' reactions to questions. As a result, the information content from interviews with Dutch interviewees will differ somewhat from the information content from interviews with Polish interviewees. It has been attempted to overcome this by discussing beforehand the alternative directions that the interview could take and what questions were appropriate in that situation.

In the fourth place, the effect of the employee relations arrangement on employee performance has been based on subjective assessments by the owner-managers. However, as the owner-managers were unprepared for the pertaining questions and as it is questionable, anyhow, whether SMEs possess data regarding aspects of employee performance other than turnover and absenteeism, not much additional light has been shed on the black box between the employee relations arrangement and firm performance. A related limitation of this study is the difficulty in ascertaining positive firm outcomes in the form of reduced turnover and absenteeism as well as increased productivity and problem solving in terms of the financial performance of the firm.

Fifth, an item for future research is the question of how multinational SMEs striving for company-wide introduction of employee-oriented CSR as the preferred type of employee relations arrangement can best address constraints in the host-country institutional environment regarding transfer of employee relations practices. The current research has not significantly addressed this matter. Important issues, in this aspect, are how to build cognition-based trust among subsidiary employees and

how to proceed from cognition-based trust to affect-based trust. After all, affect-based mutual trust is required in order for employee-oriented CSR to be successful.

Finally, though application of employee-oriented CSR – recognised as such by employees – exerts a strong positive influence on both the employee and firm outcomes of the employee relations arrangement, an important caveat is that this type of employee relations arrangements is still quite rare. On the basis of employee assessments, three establishments of the investigated companies qualified and in only one case was this assessment shared by the owner-manager. Combined with its inherent dependence on the personal value system of the owner-manager/subsidiary manager, this warrants the conclusion that employee power must be supported by union power and government regulation if employee needs and interests are to be protected effectively overall. However, Kroon and Paauwe (2013) demonstrate in their research that incorporation of elements of CSR in the employment relationship is even practicable in marginally profitable firms. Combined with the positive effects of employee-oriented CSR, this warrants future research to discover effective ways to promote this type of employee relations arrangements.

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A.1 RESPONSE RATE PER ESTABLISHMENT AS A PERCENTAGE**Table A1.1 Response rate per establishment as a percentage**

establishment	number of employees	response	response rate
Valve Co The Netherlands	23	9	39.1
Valve Co Poland	7	4	57.1
Paint Co The Netherlands	44	27	61.4
Paint Co Poland	8	4	50.0
Horti Co The Netherlands	15	6	40.0
Horti Co Estonia	19	19	100.0
Packing Co The Netherlands	45	21	46.7
Packing Co Poland	8	8	100.0
Rubber Co The Netherlands	100	27	27.0
Rubber Co Poland	43	16	37.2
Harvest Co The Netherlands	0	n.a.	n.a.
Harvest Co Estonia	18	13	72.2
Metal Co The Netherlands	3	2	66.7
Metal Co Poland	95	65	68.4

A.2 ADDITIONAL DATA VALVO CO THE NETHERLANDS**Table A2.1 Union membership Valvo Co The Netherlands**

	N	yes	no	not applicable
blue-collar	2	0	2	0
white-collar	7	2	5	0
total	9	2	7	0

Table A2.2 Employee assessment union influence Valvo Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	1	0	1	0
	white-collar	7	0	7	0
	total	8	0	8	0
Low union influence in company	blue-collar	1	0	1	0
	white-collar	7	2	5	0
	total	8	2	6	0
Unions important for protection employee rights	blue-collar	2	0	0	2
	white-collar	7	0	2	5
	total	9	9	2	7

Table A2.3 Employee assessment grievance procedures Valve Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	2	0	2	0
	white-collar	7	6	0	1
	total	9	6	2	1
Employees can appeal to external mediator	blue-collar	2	1	1	0
	white-collar	7	0	7	0
	total	9	1	8	0

A.3 ADDITIONAL DATA PAINT CO THE NETHERLANDS

Table A3.1 Union membership Paint Co The Netherlands

	N	yes	no	not applicable
blue-collar	12	5	7	0
white-collar	15	4	10	1
total	27	9	17	1

Table A3.2 Employee assessment union influence Paint Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	8	2	3	3
	white-collar	11	1	8	2
	total	19	3	11	5
Low union influence in company	blue-collar	10	2	4	4
	white-collar	12	2	6	4
	total	22	4	10	8
Unions important for protection employee rights	blue-collar	10	2	0	8
	white-collar	12	1	2	9
	total	22	3	2	17

Table A3.3 Employee assessment grievance procedures Paint Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	7	3	2	2
	white-collar	9	3	4	2
	total	16	6	6	4
Employees can appeal to external mediator	blue-collar	7	4	2	1
	white-collar	7	4	3	0
	total	14	8	5	1

A.4 ADDITIONAL DATA HORTI CO THE NETHERLANDS**Table A4.1 Union membership Horti Co The Netherlands**

	N	yes	no	not applicable
blue-collar	3	0	3	0
white-collar	3	0	3	0
total	6	0	6	0

Table A4.2 Employee assessment union influence Horti Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	3	1	2	0
	white-collar	3	0	3	0
	total	6	1	5	0
Low union influence in company	blue-collar	3	1	1	1
	white-collar	3	0	2	1
	total	6	1	3	2
Unions important for protection employee rights	blue-collar	2	1	0	1
	white-collar	3	0	2	1
	total	5	1	2	2

Table A4.3 Employee assessment grievance procedures Horti Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	3	1	1	1
	white-collar	3	1	2	0
	total	6	2	3	1
Employees can appeal to external mediator	blue-collar	2	2	0	0
	white-collar	3	2	1	0
	total	5	4	1	0

A.5 ADDITIONAL DATA PACKING CO THE NETHERLANDS

Table A5.1 Union membership Packing Co The Netherlands

	N	yes	no	not applicable
blue-collar	2	0	2	0
white-collar	14	1	8	5
total	16	1	10	5

Table A5.2 Employee assessment union influence Packing Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	1	0	1	0
	white-collar	18	0	17	1
	total	19	0	18	1
Low union influence in company	blue-collar	2	0	1	1
	white-collar	18	0	12	6
	total	20	0	13	7
Unions important for protection employee rights	blue-collar	2	0	2	0
	white-collar	19	2	11	6
	total	21	2	13	8

Table A5.3 Employee assessment grievance procedures Packing Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	2	2	0	0
	white-collar	17	10	7	0
	total	19	12	7	0
Employees can appeal to external mediator	blue-collar	1	0	0	1
	white-collar	16	1	7	8
	total	17	1	7	9

A.6 ADDITIONAL DATA RUBBER CO THE NETHERLANDS**Table A6.1 Union membership Rubber Co The Netherlands**

	N	yes	no	not applicable
blue-collar	15	5	10	0
white-collar	12	2	10	0
total	27	7	20	0

Table A6.2 Employee assessment union influence Rubber Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	14	4	8	2
	white-collar	10	0	8	2
	total	24	4	16	4
Low union influence in company	blue-collar	14	2	7	5
	white-collar	10	0	8	2
	total	24	2	15	7
Unions important for protection employee rights	blue-collar	14	0	6	8
	white-collar	11	1	3	7
	total	25	1	9	15

Table A6.3 Employee assessment grievance procedures Rubber Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	15	3	6	6
	white-collar	11	2	8	1
	total	26	5	14	7
Employees can appeal to external mediator	blue-collar	14	4	9	1
	white-collar	10	3	6	1
	total	24	7	15	2

Table A6.4 Employee assessment functioning works council Rubber Co The Netherlands

		N	disagree	neutral	agree
Works council functions well	blue-collar	13	7	0	6
	white-collar	12	8	0	4
	total	25	15	0	10
Positive management stance toward works council	blue-collar	11	3	4	4
	white-collar	12	0	8	4
	total	23	3	12	8

A.7 ADDITIONAL DATA METAL CO THE NETHERLANDS**Table A7.1 Union membership Metal Co The Netherlands**

	N	yes	no	not applicable
white-collar	1	0	1	0

Table A7.2 Employee assessment union influence Metal Co The Netherlands

		N	disagree	neutral	agree
Positive management stance toward union membership	white-collar	2	0	2	0
Low union influence in company	white-collar	2	0	1	1
Unions important for protection employee rights	white-collar	2	0	1	1

Table A7.3 Employee assessment grievance procedures Rubber Co The Netherlands

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	white-collar	2	1	0	1
Employees can appeal to external mediator	white-collar	2	0	2	0

A.8 ADDITIONAL DATA VALVE CO POLAND**Table A8.1 Union membership Valve Co Poland**

	N	yes	no	not applicable
blue-collar	3	0	2	1
white-collar	1	0	0	1
total	4	0	2	2

Table A8.2 Employee assessment union influence Valve Co Poland

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	1	1	0	0
	white-collar	0	0	0	0
	total	1	1	0	0
Low union influence in company	blue-collar	1	1	0	0
	white-collar	0	0	0	0
	total	1	1	0	0
Unions important for protection employee rights	blue-collar	1	1	0	0
	white-collar	0	0	0	0
	total	1	1	0	0

Table A8.3 Employee assessment grievance procedures Valve Co Poland

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	2	0	1	1
	white-collar	0	0	0	0
	total	2	0	1	1
Employees can appeal to external mediator	blue-collar	3	1	2	0
	white-collar	1	0	0	1
	total	4	1	2	1

Table A8.4 Assessment institutional aspects Valve Co Poland

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	3	1	0	2
	white-collar	1	0	1	0
	total	4	1	1	2
Employees think management difficult to approach	blue-collar	3	0	2	1
	white-collar	1	0	0	1
	total	4	0	2	2
People address each other by their first name	blue-collar	3	0	0	3
	white-collar	1	0	1	0
	total	4	0	1	3

A.9 ADDITIONAL DATA PAINT CO POLAND**Table A9.1 Union membership Paint Co Poland**

	N	yes	no	not applicable
white-collar	4	0	2	2

Table A9.2 Employee assessment union influence Paint Co Poland

		N	disagree	neutral	agree
Positive management stance toward union membership	white-collar	2	0	2	0
Low union influence in company	white-collar	1	0	1	0
Unions important for protection employee rights	white-collar	1	0	1	0

Table A9.3 Employee assessment grievance procedures Paint Co Poland

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	white-collar	3	0	2	1
Employees can appeal to external mediator	white-collar	3	0	2	1

Table A9.4 Assessment institutional aspects Paint Co Poland

		N	disagree	neutral	agree
People prefer to work for a European company	white-collar	3	2	1	0
Employees think management difficult to approach	white-collar	3	2	1	0
People address each other by their first name	white-collar	3	0	0	3

A.10 ADDITIONAL DATA HORTI CO ESTONIA

Table A10.1 Union membership Horti Co Estonia

	N	yes	no	not applicable
blue-collar	9	0	8	1
white-collar	8	1	7	0
total	17	1	15	1

Table A10.2 Employee assessment union influence Horti Co Estonia

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	6	1	5	0
	white-collar	7	2	5	0
	total	13	3	10	0
Low union influence in company	blue-collar	6	0	4	2
	white-collar	7	0	3	4
	total	13	0	7	6
Unions important for protection employee rights	blue-collar	6	0	2	4
	white-collar	7	2	3	2
	total	13	2	5	6

Table A10.3 Employee assessment grievance procedures Horti Co Estonia

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	5	0	5	0
	white-collar	6	2	3	1
	total	11	2	8	1
Employees can appeal to external mediator	blue-collar	4	1	3	0
	white-collar	6	4	2	0
	total	10	5	5	0

Table A10.4 Assessment institutional aspects Horti Co Estonia

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	8	1	2	5
	white-collar	8	4	2	2
	total	16	5	4	7
Employees think management difficult to approach	blue-collar	8	4	3	1
	white-collar	8	6	1	1
	total	16	10	4	2
People address each other by their first name	blue-collar	8	1	0	7
	white-collar	8	0	0	8
	total	16	1	0	15

A.11 ADDITIONAL DATA PACKING CO POLAND

Table A11.1 Union membership Packing Co Poland

	N	yes	no	not applicable
blue-collar	2	0	0	2
white-collar	5	0	1	4
total	7	0	1	6

Table A11.2 Employee assessment union influence Packing Co Poland

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	0	0	0	0
	white-collar	2	0	2	0
	total	2	0	2	0
Low union influence in company	blue-collar	0	0	0	0
	white-collar	2	0	2	0
	total	2	0	2	0
Unions important for protection employee rights	blue-collar	0	0	0	0
	white-collar	3	1	2	0
	total	3	1	2	0

Table A11.3 Employee assessment grievance procedures Packing Co Poland

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	2	0	0	2
	white-collar	6	1	5	0
	total	8	1	5	2
Employees can appeal to external mediator	blue-collar	2	0	0	2
	white-collar	6	1	4	1
	total	8	1	4	3

Table A11.4 Assessment institutional aspects Packing Co Poland

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	2	0	0	2
	white-collar	5	1	1	3
	total	7	1	1	5
Employees think management difficult to approach	blue-collar	2	0	2	0
	white-collar	5	2	1	2
	total	7	2	3	2
People address each other by their first name	blue-collar	2	0	0	2
	white-collar	5	0	1	4
	total	7	0	1	6

A.12 ADDITIONAL DATA RUBBER CO POLAND

Table A12.1 Union membership Rubber Co Poland

	N	yes	no	not applicable
blue-collar	9	0	4	5
white-collar	6	0	2	4
total	15	0	6	9

Table A12.2 Employee assessment union influence Rubber Co Poland

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	3	1	2	0
	white-collar	4	1	3	0
	total	7	2	5	0
Low union influence in company	blue-collar	2	0	1	1
	white-collar	1	1	0	0
	total	3	1	1	1
Unions important for protection employee rights	blue-collar	2	1	1	0
	white-collar	1	1	0	0
	total	3	2	1	0

Table A12.3 Employee assessment grievance procedures Rubber Co Poland

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	8	3	5	0
	white-collar	5	0	3	2
	total	13	3	8	2
Employees can appeal to external mediator	blue-collar	8	3	5	0
	white-collar	5	0	5	0
	total	13	3	10	0

Table A12.4 Assessment institutional aspects Rubber Co Poland

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	8	0	2	6
	white-collar	6	3	3	0
	total	14	3	5	6
Employees think management difficult to approach	blue-collar	8	3	1	4
	white-collar	6	3	2	1
	total	14	6	3	5
People address each other by their first name	blue-collar	9	0	0	9
	white-collar	6	0	1	5
	total	15	0	1	14

A.13 ADDITIONAL DATA HARVEST CO ESTONIA

Table A13.1 Union membership Harvest Co Estonia

	N	yes	no	not applicable
blue-collar	6	0	6	0
white-collar	4	0	4	0
total	10	0	10	0

Table A13.2 Employee assessment union influence Harvest Co Estonia

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	6	0	6	0
	white-collar	2	0	2	0
	total	8	0	8	0
Low union influence in company	blue-collar	6	0	4	2
	white-collar	2	0	2	0
	total	8	0	6	2
Unions important for protection employee rights	blue-collar	6	1	2	3
	white-collar	2	0	1	1
	total	8	1	3	4

Table A13.3 Employee assessment grievance procedures Harvest Co Estonia

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	5	0	5	0
	white-collar	4	2	2	0
	total	9	2	7	0
Employees can appeal to external mediator	blue-collar	4	1	3	0
	white-collar	4	0	3	1
	total	8	1	6	1

Table A13.4 Assessment institutional aspects Harvest Co Estonia

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	8	1	4	3
	white-collar	5	0	1	4
	total	13	1	5	7
Employees think management difficult to approach	blue-collar	8	3	2	3
	white-collar	5	2	2	1
	total	13	5	4	4
People address each other by their first name	blue-collar	8	0	1	7
	white-collar	5	0	1	4
	total	13	0	2	11

A.14 ADDITIONAL DATA METAL CO POLAND

Table A14.1 Union membership Metal Co Poland

	N	yes	no	not applicable
blue-collar	38	0	31	7
white-collar	22	0	6	16
total	60	0	37	23

Table A14.2 Employee assessment union influence Metal Co Poland

		N	disagree	neutral	agree
Positive management stance toward union membership	blue-collar	24	6	15	3
	white-collar	8	0	8	0
	total	32	6	23	3
Low union influence in company	blue-collar	24	2	13	9
	white-collar	7	1	5	1
	total	31	3	18	10
Unions important for protection employee rights	blue-collar	22	5	11	6
	white-collar	7	2	5	0
	total	29	7	16	6

Table A14.3 Employee assessment grievance procedures Metal Co Poland

		N	disagree	neutral	agree
I am dissatisfied with handling complaints	blue-collar	35	8	21	6
	white-collar	15	3	11	1
	total	50	11	32	7
Employees can appeal to external mediator	blue-collar	34	11	19	4
	white-collar	14	3	11	0
	total	48	14	30	4

Table A14.4 Assessment institutional aspects Metal Co Poland

		N	disagree	neutral	agree
People prefer to work for a European company	blue-collar	27	6	12	9
	white-collar	17	1	13	3
	total	44	7	25	12
Employees think management difficult to approach	blue-collar	27	9	11	7
	white-collar	17	7	6	4
	total	44	16	17	11
People address each other by their first name	blue-collar	27	2	0	25
	white-collar	17	0	1	16
	total	44	2	1	41

SAMENVATTING

De afgelopen decennia heeft het proces van globalisering een versnelling ondergaan door liberalisering van nationale en internationale markten, verlaging van transportkosten en gemakkelijkere en goedkopere toegang tot informatie als gevolg van de ontwikkeling van de informatietechnologie. Deze ontwikkelingen gingen samen met een herwaardering van de rol van de overheid in de economie van een verzorgingsstaatconcept naar een marktgedreven opvatting. Onder invloed van het neoliberale Angelsaksische model kwam de nadruk steeds meer te liggen op het creëren van aandeelhouderswaarde als belangrijkste ondernemingsdoel. Dit leidde tot de verwaarlozing van de belangen van andere bij de onderneming betrokken groepen. In een aantal gevallen waren regelrechte misstanden zoals kinderarbeid en flagrante milieuvervuiling het gevolg. Acties van niet-gouvernementele organisaties (NGO's) als Greenpeace en de Clean Clothes Campaign tegen deze misstanden ondervonden een zo brede weerklank onder het algemene publiek in de westerse wereld dat ondernemingen zich gedwongen voelden om door middel van 'maatschappelijk verantwoord ondernemen' (MVO) rekening te houden met de belangen van andere groepen belanghebbenden of stakeholders dan alleen aandeelhouders op een manier die verder gaat dan wat wetgeving en gebruik voorschrijven. MVO gaat dus in essentie over de rol van waarden in het economisch handelen.

De rol van waarden

Agle *et al.* (1999) maken onderscheid tussen twee soorten waarden op basis waarvan managers handelen: op zich zelf gerichte waarden en op anderen gerichte waarden. In het Angelsaksische model wordt ervan uitgegaan dat het nastreven van het eigenbelang in de vorm van het creëren van aandeelhouderswaarde de economische groei bevordert. Dit model is gebaseerd op de op zichzelf gerichte waarden van managers: de status en beloning van managers zijn afhankelijk van de mate waarin zij erin slagen aandeelhouderswaarde te creëren. Zij zien andere groepen belanghebbenden bij de onderneming alleen als middel om meer aandeelhouderswaarde te creëren. Maatschappelijk verantwoord ondernemen daarentegen is gebaseerd op de op anderen gerichte waarden van managers die hen prikkelen rekening te houden met de belangen van degenen die door het handelen van het bedrijf beïn-

vloed worden. Gebaseerd op deze waarden zien managers de verwezenlijking van de belangen van deze groepen belanghebbenden als een doel op zich. Dit heeft onder andere tot gevolg dat het management meer voor stakeholders doet dan wetgeving, gewoonten of contracten voorschrijven.

Maatschappelijk verantwoord ondernemen

Maatschappelijk verantwoord ondernemen (MVO) wordt vaak geassocieerd met externe stakeholdergroepen. Zeker in West-Europa werd ervan uitgegaan dat de belangen van werknemers afdoende behartigd werden door wet- en regelgeving van de overheid en door de collectieve arbeidsovereenkomsten die door sterke vakbonden werden afgesloten. Bovendien werd in het Rijnländs model de bedrijfscultuur in familiebedrijven van oudsher gekenmerkt door aandacht voor de belangen van andere groepen dan alleen aandeelhouders. Maar door de met het globaliseringsproces samenhangende deregulering van de arbeidsmarkt werd de bescherming van werknemers door de overheid steeds verder afgebroken. Tegelijkertijd daalde vrijwel overal in de westerse wereld de organisatiegraad van werknemers waardoor de macht van vakbonden uitgehold werd. Door dit machtsverlies van de (georganiseerde) werknemers kwamen arbeidsvoorwaarden en werkzekerheid steeds verder onder druk te staan. Daarnaast leidden liberalisering van markten en deregulering tot een steeds felle concurrentiestrijd tussen ondernemingen hetgeen onder andere leidde tot grotere werkdruk bij werknemers. Deze ontwikkelingen maken meer aandacht voor de positie van werknemers als interne stakeholdergroep noodzakelijk (Pfeffer, 2010).

Binnen het vakgebied MVO is er nog heel weinig aandacht voor de positie van werknemers. Van oudsher is dit het onderwerp van de vakgebieden Strategisch HRM en Arbeidsmarktverhoudingen. Hier is het gebruikelijk het systeem van arbeidsrelaties in bedrijven en de kwaliteit van de resulterende arbeidsvoorwaarden te verklaren uit de relatieve machtsposities van werkgevers en werknemers. Vooral de economische aspecten van arbeidsvoorwaarden, tijd en geld, waren hierbij belangrijk. Pas de laatste tijd komt er bij zowel HRM als Arbeidsmarktverhoudingen meer aandacht voor het feit dat een arbeidsrelatie niet alleen economische aspecten maar ook morele aspecten heeft, zie bijvoorbeeld Paauwe (2004) en Heery *et al.* (2008). Door middel van de stakeholdertheorie kan de positie van werknemers in bedrijven gemakkelijk worden geïntegreerd in MVO. Immers, maatschappelijke verantwoordelijkheid van bedrijven kan alleen geconcretiseerd worden in hun relaties met groepen die het handelen van bedrijven beïnvloeden en/of door het handelen van bedrijven beïnvloed worden. De theorie en praktijk van MVO zijn echter voornamelijk bestudeerd in het kader van grote, multinationale bedrijven,

waarbij weinig aandacht is besteed aan de specifieke, afwijkende omstandigheden in het midden- en kleinbedrijf (MKB). Dit proefschrift stelt dan ook de vraag centraal onder welke omstandigheden multinationale ondernemingen in het MKB overgaan op MVO gericht op werknemers in zowel het thuisland als de buitenlandse vestigingen. Onderzocht wordt in hoeverre het waardensysteem van de ondernemer hier een rol in speelt. MVO gericht op werknemers is namelijk gedefinieerd als een bedrijfsstelsel van arbeidsrelaties waarin werknemers niet alleen worden gezien als middel om financieel-economische bedrijfsdoelstellingen te bereiken – omdat hun kennis, vaardigheden en capaciteiten grote invloed uitoefenen op de bedrijfsresultaten – maar ook als mensen wier belangen en behoeften als doel op zich nagestreefd dienen te worden omdat de kwaliteit van hun bestaan beïnvloed wordt door het handelen van het bedrijf.

Het management zal zich alleen om de werknemersbelangen bekommeren als werknemers voor hen een prominente groep stakeholders vormen. Volgens Mitchell *et al.* (1997) hangt de mate waarin het management een bepaalde stakeholdergroep prominent acht af van de legitimiteit, macht en urgentie van de desbetreffende groep. Driscoll en Starik (2004) voegen de mate van nabijheid nog als vierde kenmerk toe. Mijn bijdrage aan de stakeholderliteratuur bestaat uit de aanpassing van dit model in de zin dat legitimiteit en macht direct het belang van stakeholders bepalen en dat urgentie en nabijheid de mate van gepercipieerde legitimiteit en macht beïnvloeden. De mate van legitimiteit van werknemers als stakeholders hangt samen met de op anderen gerichte waarden van het management en hun macht met de op zichzelf gerichte waarden van het management. Er zijn drie bronnen van werknemersmacht:

1. hun bruikbaarheid, bepaald door hun kennis, vaardigheden en talenten;
2. vakbondsmacht;
3. de striktheid van arbeidswetgeving en regulering.

Bedrijfsstelsel van arbeidsrelaties

Op basis van de dimensies ‘op anderen gerichte waarden’ en ‘werknemersmacht’ heb ik twee schema’s ontwikkeld met behulp waarvan bedrijfsstelsels van arbeidsrelaties geclassificeerd kunnen worden vanuit werkgevers-, respectievelijk werknemersgezichtspunt (zie Figuur S.1 en Figuur S.2). Werkgevers bepalen het belang van werknemers als stakeholders op basis van de dimensies ‘op anderen gerichte waarden’ en ‘de gepercipieerde macht van werknemers’. Werknemers zien de op anderen gerichte waarden van het management vooral weerspiegeld in het organisatieklimaat en hun macht in de kwaliteit van het gehanteerde HR instrumentarium. Er zijn dan vier bedrijfsstelsels van arbeidsrelaties te onderscheiden:

1. het lage-lonenstelsel (lage op anderen gerichte waarden en geringe macht);
2. paternalisme (hoge op anderen gerichte waarden en geringe macht);
3. het op strategisch HRM gebaseerde stelsel (lage op anderen gerichte waarden en grote macht) en
4. op werknemers gericht MVO (hoge op anderen gerichte waarden en grote macht).

Figuur S.1 Schema bedrijfsstelsels arbeidsrelaties vanuit oogpunt eigenaar- directeuren

op zichzelf gerichte waarden	hoog	HRM-gebaseerd	werknemersgericht MVO
	laag	lage-lonenstelsel	paternalisme
		laag	op anderen gerichte waarden
			hoog

Figuur S.2 Schema bedrijfsstelsels arbeidsrelaties vanuit oogpunt werknemers

HR praktijken	hoog	HRM-gebaseerd	werknemersgericht MVO
	laag	lage-lonenstelsel	paternalisme
		laag	organisatieklimaat
			hoog

Theoretische perspectieven

Drie theoretische perspectieven zijn van belang voor dit onderzoek. De vraag hoe op anderen gerichte waarden de legitimiteit van stakeholders beïnvloeden is onderzocht met behulp van het stakeholderperspectief. Voor het analyseren van de bedrijfsspecifieke werknemersmacht voortvloeiend uit kennis, vaardigheden en talenten is gebruik gemaakt van het strategisch HRM perspectief. Het institutionalisme ten slotte is om twee redenen belangrijk. Allereerst vormen voor MKB bedrijven de nationale arbeidsverhoudingen, bepaald door vakbondsmacht en overheidsregulering van de arbeidsmarkt, niet te beïnvloeden onderdelen van het nationale business systeem waar zij deel van uitmaken. Multinationale MKB bedrijven maken per definitie deel uit van minimaal twee nationale business systemen die elk hun eigen invloed op het bedrijfsstelsel van arbeidsrelaties uitoefenen. Daarnaast wordt de mate van nabijheid van werknemers in buitenlandse vestigingen bepaald door het verschil in cognitieve en normatieve instituties tussen thuisland en gastheerland.

Casestudie onderzoek

Het onderzoek is uitgevoerd in de vorm van een casestudie onder zeven multinationale MKB bedrijven in de industrie-, diensten en grondstoffensectoren in Noordoost-Nederland met vestigingen in Polen of Estland. Deze landen zijn uitgekozen vanwege de grote verschillen in cognitieve en normatieve instituties met Nederland. Twee van de casestudie bedrijven voeren het grootste deel van hun activiteiten uit in hun buitenlandse vestigingen. De betrokken bedrijven vormen geen goede afspiegeling van de totale populatie multinationale MKB bedrijven in Noordoost-Nederland omdat het economisch goed presterende bedrijven zijn waardoor de beperktheid van financiële middelen – algemeen gezien als een belangrijk verschil tussen grootbedrijf enerzijds en MKB anderzijds, zie bijvoorbeeld Storey (1994) en Tilley & Tonge (2003) – minder dan gemiddeld in het MKB een probleem is. Daarnaast is het waarschijnlijk dat alleen bedrijven hebben meegedaan die van mening zijn een fatsoenlijk personeelsbeleid te hebben.

Het onderzoek is gehouden onder bedrijven in het MKB omdat het effect van het waardensysteem van de eigenaar-directeur op inrichting en uitvoering van het bedrijfsstelsel van arbeidsrelaties gemakkelijker te traceren is dan in het grootbedrijf. Veel meer dan de CEO in het grootbedrijf bekleedt de eigenaar-directeur in het MKB een spilpositie in zijn/haar bedrijf waarin hij/zij zijn/haar stempel zet op alle bedrijfsprocessen. Daarnaast is onderzoek naar het MKB zowel wetenschappelijk als maatschappelijk relevant omdat:

1. Er weinig onderzoek is gedaan naar het MKB in verhouding tot het belang van deze sector voor nationale economieën in termen van productie en werkgelegenheid.
2. Resultaten van wetenschappelijk onderzoek naar het grootbedrijf niet zonder meer toepasbaar zijn op het MKB vanwege grote verschillen op belangrijke aspecten als financiële armslag en specialistische expertise.
3. Het MKB sterk internationaliseert waarbij directe buitenlandse investeringen een steeds belangrijker rol spelen.

Interviews

Ik heb interviews gehouden met de eigenaar-directeuren en de vestigingsdirecteuren van de betrokken bedrijven om het type bedrijfsstelsel van arbeidsrelaties – en daarmee de rol van op anderen gerichte waarden – en de beoogde uitkomsten voor zowel werknemers als bedrijf vast te stellen. Daarnaast zijn interviews gehouden met werknemers in het thuisland en het gastheerland om vast te stellen in hoeverre hun beeld van de rol van de op anderen gerichte waarden van het topmanagement in het bedrijfsstelsel van arbeidsrelaties, hun waardering van de uitkomsten van het bedrijfsstelsel en hun betrokkenheid bij het bedrijf met de visie van de eigenaar-directeuren overeenkwam. Aangezien de geïnterviewde werknemers door de eigenaar-directeuren geselecteerd waren en zij voornamelijk tot de categorie van de witte boorden behoorden, is er vervolgens een enquête onder de totale werknemerspopulatie van de betrokken bedrijven gehouden om vast te stellen in hoeverre de geïnterviewde werknemers de visie van het hele personeel weergaven.

Werknemers als stakeholders

De in de inleiding opgemerkte vermindering van werknemersrechten en verwaarlozing van hun belangen bleek voor geen van de bedrijven op te gaan. Alle eigenaar-directeuren gaven aan hun werknemers als een zeer belangrijke, zo niet de belangrijkste, groep stakeholders te zien op grond van legitimiteit en macht:

1. Zij zagen inachtneming van werknemersbelangen niet alleen als middel om de ondernemingsdoelen te bereiken,
2. maar ook als doel op zich: werkgevers zijn verantwoordelijk voor een kwalitatief goed (arbeids)bestaan van werknemers.

Wat legitimiteit betrof zeiden de ondernemers geen onderscheid te maken tussen hun werknemers in het thuisland en het buitenland. Ze beschouwden de macht van de werknemers in de buitenlandse vestigingen als minder groot dan in Nederland vooral vanwege het ontbreken van vakbondsmacht en in mindere mate vanwege

geringere overheidsbescherming. De macht van kennis, vaardigheden en talenten bleek af te hangen van het investeringsmotief: voor markt- en grondstoffenzoekers was deze groter dan voor efficiëntiezoekers.

Bedrijfsstelsel van arbeidsrelaties

Met betrekking tot het bedrijfsstelsel van arbeidsrelaties bleken de ondernemers het organisatieklimaat belangrijker te vinden dan het formele HR instrumentarium om de belangen en behoeften van werknemers te verwerkelijken. Dit gezichtspunt kan ingegeven zijn door de algemene voorkeur van ondernemers in het MKB voor informaliteit boven formaliteit, zie bijvoorbeeld Storey (1994), en door het feit dat het in welvarende en sterk gereguleerde landen als Nederland erg moeilijk en kostbaar is door middel van HR instrumenten meer te doen dan collectieve arbeids-overeenkomst en wetgeving voorschrijven (Crane *et al.*, 2008).

De ondernemers streefden naar een op wederzijds vertrouwen gebaseerd organisatieklimaat dat voorzag in de behoefte van werknemers aan transparantie met betrekking tot de gang van zaken in het bedrijf, inspraak en een prettige werksfeer tussen management en personeel. Zij hadden de indruk dat de voorkeur voor een dergelijk organisatieklimaat boven een formeel HR instrumentarium ook door hun werknemers gedeeld werd. De ondernemers combineerden deze op andere gerichte waarden met op zichzelf gerichte waarden door ervan uit te gaan dat het organisatieklimaat een positief effect had op de betrokkenheid van werknemers die via een proactieve werkhouding tot grotere productiviteit en lagere kosten zou leiden. Op basis van hun verklaringen kon het bedrijfsstelsel van arbeidsrelaties van één moederbedrijf (Packing Co) en twee dochters (Paint Co en Metal Co) als op werknemers gericht MVO gekenschetst worden.

Transferintentie

Met betrekking tot eventuele transfer van het Nederlandse bedrijfsstelsel van arbeidsrelaties vonden ondernemers dan ook het organisatieklimaat het belangrijkste. Dit temeer omdat zij gebrek aan wederzijds vertrouwen en een proactieve werkhouding als belangrijke obstakels voor de concurrentiekracht van de vestigingen in Polen en Estland beschouwden. Het omzetten van transferintentie in daadwerkelijke transfer bleek deels afhankelijk te zijn van het investeringsmotief, de eigenomsstructuur van de buitenlandse vestiging en of het een bestaand bedrijf dan wel een nieuw bedrijf betrof. De institutionele afstand met betrekking tot cognitieve en normatieve instituties tussen Nederland enerzijds en Polen en Estland anderzijds

bleek echter zo groot te zijn dat institutioneel ondernemerschap noodzakelijk was om transfer tot een succes te maken.

Institutioneel ondernemerschap

Institutioneel ondernemerschap houdt in dat de ondernemer bestaande instituties probeert te veranderen en deze veranderingen ook implementeert. Dat is precies wat een aantal ondernemers doet. Zij willen de cognitieve en normatieve instituties in hun vestiging die het ontstaan van wederzijds vertrouwen en een proactieve werkhouding in de weg staan vervangen door instituties gebaseerd op het Nederlandse neocorporatistische model. Daartoe moet het belang van hiërarchische status en het wantrouwen tussen werkvloer en management afgebroken worden en vervangen worden door egalitarisme en vertrouwen. De ondernemers maken met name gebruik van de macht van woord en gebaar (Ferner *et al.*, 2012) om dit tot stand te brengen. Zij leggen uit waarom hiërarchische status en wantrouwen slecht zijn voor het bedrijf, steken zelf de handen uit de mouwen om te laten zien dat ook zij werken, gaan op voet van gelijkwaardigheid met het personeel om, laten werknemers zoveel mogelijk vrij hun werk naar eigen inzicht in te richten en belonen het nemen van initiatief. Naar eigen zeggen van de betrokken ondernemers zijn zij succesvol in de totstandbrenging van de gewenste veranderingen.

Gepercipieerde waarden

Bij alle bedrijven geven werknemers aan dat het bedrijfsstelsel van arbeidsrelaties mede gebaseerd is op de op anderen gerichte waarden van de ondernemers, al geldt dat voor de werknemers van de moederondernemingen sterker dan voor de werknemers in de buitenlandse vestigingen. Daarbij moet wel bedacht worden dat de werknemers in het buitenland, afhankelijk van de mate van aanwezigheid van de eigenaar-directeuren, hun oordeel ook baseren op hun waarneming van op anderen gerichte waarden bij het plaatselijke management. Het verschil in beoordeling van op anderen gerichte waarden komt ook tot uitdrukking in de betere beoordeling van het organisatieklimaat door de werknemers van de moederondernemingen. Dit heeft vooral te maken met een slechtere beoordeling van de mate van inspraak door de werknemers in de buitenlandse vestigingen. Uit dit onderzoek is niet gebleken dat het institutioneel ondernemerschap bij de onderzochte ondernemingen in dit opzicht succesvol is geweest.

Transparantie

Opvallend is de slechte beoordeling die de werknemers van bijna alle vestigingen geven over de mate van transparantie van hun bedrijf vergeleken met de mate van inspraak en met name de werksfeer. Waar de ondernemers vinden dat de gang van

zaken in hun bedrijf transparant is en de communicatie open, zijn werknemers van mening dat hier het nodige kan worden verbeterd. Vooral de communicatie over de resultaten van het bedrijf en veranderingen die de eigen werksituatie beïnvloeden zijn voor verbetering vatbaar. Desalniettemin beoordelen de werknemers van de moederondernemingen het organisatieklimaat beter dan het gebruikte HR instrumentarium; in de buitenlandse vestigingen zijn beide beoordelingen vergelijkbaar. Dit lijkt erop te wijzen dat de werknemers net als de ondernemers het organisatieklimaat belangrijker vinden dan formele HR instrumenten om hun belangen en behoeften te verwerkelijken.

Bij de vergelijking van de correlaties tussen resultaten voor werknemers en HR instrumentarium respectievelijk organisatieklimaat blijkt echter dat werknemers het HR instrumentarium belangrijker achten dan het organisatieklimaat om hun belangen en behoeften te verwerkelijken. Het punt is alleen dat de meeste HR instrumenten in de bedrijven een informeel karakter hebben en daardoor niet transparant zijn. Het is voor werknemers niet duidelijk op welke voorzieningen ze onder welke voorwaarden recht hebben omdat daar geen regels voor zijn vastgelegd. Voor de werknemers in de buitenlandse vestigingen geldt dit in nog sterkere mate dan voor de werknemers in Nederland. Zij waarderen de uitkomsten van het bedrijfsstelsel van arbeidsrelaties ook slechter dan de werknemers van de moederbedrijven. Geen van de bedrijfsstelsels van de dochterondernemingen werd door de werknemers als op werknemers gericht MVO getypeerd, terwijl de werknemers van drie moederbedrijven (Packing Co, Valve Co en Metal Co) hun bedrijfsstelsel wel als op werknemers gericht MVO karakteriseerden.

Betrokkenheid

Alle ondernemers blijken redelijk tot zeer succesvol te zijn in het genereren van betrokkenheid bij werknemers hetgeen het aannemelijk maakt dat de door de ondernemers vermelde gunstige effecten van hun bedrijfsstelsel van arbeidsrelaties op kosten en productiviteit zich inderdaad voordoen. Opvallend is dat de werknemers van de buitenlandse vestigingen een veel hogere mate van betrokkenheid aangeven dan verwacht op grond van hun oordeel over het bedrijfsstelsel van arbeidsrelaties en de resultaten daarvan. Dit lijkt los te staan van het door een aantal ondernemers uitgeoefende institutionele ondernemerschap aangezien dit resultaat ook geldt voor de vestigingen waar de ondernemers zich niet bemoeid hebben met de inrichting van het bedrijfsstelsel van arbeidsrelaties. Misschien vinden werknemers dat zij, ondanks hun negatievere beoordeling dan de werknemers in de moederbe-

drijven, beter af zijn dan bij vergelijkbare bedrijven in hun eigen land (Kohl & Platzer, 2003).

Personeelscategorieën

Naast de verschillen in beoordeling van de bedrijfsstelsels tussen werknemers in het moederbedrijf en werknemers in de buitenlandse vestiging blijken er ook grote verschillen te bestaan tussen de productiemedewerkers en het overig personeel. Productiemedewerkers beoordelen het bedrijfsstelsel van arbeidsrelaties, de resultaten daarvan en hun betrokkenheid bij het bedrijf gemiddeld genomen slechter dan het overig personeel. Dat geldt met name voor het oordeel over transparantie en zeggenschap over de inrichting van het eigen werk. Zij zien wat betreft het laatste kennelijk meer mogelijkheden dan de ondernemers. Het verschil in beoordeling kan ook te maken hebben met de lagere mate van nabijheid tussen ondernemers en productiemedewerkers vergeleken met het overig personeel. Productiemedewerkers zijn relatief laag opgeleid en hebben in de dagelijkse omgang minder met de ondernemers te maken. Dit maakt het voor ondernemers moeilijker zich in te leven in de productiemedewerkers.

We kunnen concluderen dat, waar voor ondernemers in het MKB informaliteit een kracht is voor wat betreft het organisatieklimaat in hun bedrijven, dit juist een zwakte is bij de inrichting van het HR instrumentarium. Dit is waarschijnlijk de belangrijkste reden waarom bij slechts drie bedrijfsvestigingen (alle in Nederland) het bedrijfsstelsel van arbeidsrelaties door het personeel als op werknemers gericht MVO werd gekarakteriseerd. Hoewel ondernemers zeggen met werknemersbelangen rekening te houden, stelt dit in de ogen van werknemers vaak onvoldoende voor. De kunst is de informaliteit van de onderlinge relaties die tot een prettige werksfeer leidt te combineren met transparant vormgegeven HR instrumenten. Dit kunnen ondernemers bewerkstelligen door op basis van hun op anderen gerichte waarden met werknemers in zowel moederbedrijf als buitenlandse vestigingen een dialoog met hun werknemers aan te gaan om te achterhalen op welke manier zij het best aan hun belangen en behoeften tegemoet kunnen komen.

Conclusies

Al met al kan geconcludeerd worden dat het conceptueel model de introductie en transfer van op werknemers gericht MVO adequaat lijkt beschrijven ondanks het gegeven dat in de ogen van de werknemers slechts drie bedrijven een dergelijk bedrijfsstelsel van arbeidsrelaties hebben. Ten eerste maakt het model het mogelijk een duidelijk onderscheid aan te brengen tussen op werknemers gericht MVO en op strategisch HRM gebaseerde stelsels: op werknemers gericht MVO is gebaseerd

op de op anderen gerichte waarden van de eigenaar-directeur gemodereerd door de werknemersmacht, terwijl strategisch HRM is gebaseerd op werknemersmacht gemodereerd door op anderen gerichte waarden.

Ten tweede stelt het model de onderzoeker in staat de invloed van de institutionele omgeving in het gastheerland op transferintentie en -resultaten te analyseren en daarmee de noodzaak van institutioneel ondernemerschap te benadrukken. Bij de bestudeerde ondernemingen blijkt de buitenlandse institutionele omgeving de transfer van de voorkeursinstrumenten negatief te beïnvloeden. Bovendien blijken de ondernemers onvoldoende institutioneel ondernemerschap te hebben uitgeoefend om deze negatieve invloed teniet te doen.

Ten slotte maakt het model het mogelijk te analyseren hoe op werknemers gericht MVO het presteren van werknemers beïnvloedt door middel van het effect op hun betrokkenheid. Weliswaar oefenen ook strategisch HRM en paternalisme een dergelijk effect uit op werknemersprestaties maar in geringere mate en minder omvattend.

Een belangrijke kanttekening is dat hoewel op werknemers gericht MVO – dat als zodanig door de werknemers herkend wordt – een sterk positieve invloed uitoefent op zowel de werknemers- als bedrijfsresultaten, dit type bedrijfsstelsel van arbeidsrelaties nog steeds erg weinig voorkomt. Drie vestigingen van de onderzochte bedrijven kwalificeren zich voor deze typering op basis van werknemerswaardering waarbij deze waardering in slechts één geval overeenkwam met die van de eigenaar-directeur. Gecombineerd met de intrinsieke afhankelijkheid van het persoonlijk waardensysteem van de eigenaar-directeur/vestigingsdirecteur rechtvaardigt dit de conclusie dat werknemersmacht ondersteund moet worden door vakbondsmacht en regelgeving door de overheid, willen werknemersbelangen in het algemeen effectief beschermd worden. Toch moet, gelet op de positieve effecten op werknemers gericht MVO, in de toekomst onderzoek uitgevoerd worden naar effectieve middelen om dit type bedrijfsstelsel van arbeidsrelaties te bevorderen.

SUMMARY

Over the past decades, the globalisation process has accelerated due to the liberalisation of national and international markets, the reduction of transport costs, and easier access to low-cost information as a result of the progress of information technology. Simultaneously, the economic role of government changed from steering social-economic developments in the preferred direction into facilitating economic growth by creating more freedom of action for companies. Under the influence of the neoliberal Anglo-Saxon model, the emphasis was increasingly on the creation of shareholder value as a core company objective. This development led to the neglect of the interests of other stakeholder groups. In a number of cases, this resulted in outright offenses such as child labour and flagrant pollution scandals. Actions against these abuses by non-governmental organisations (NGOs) such as Greenpeace and the Clean Clothes Campaign were so well received among the public at large that companies felt compelled to engage in 'corporate social responsibility' (CSR) in order to take the interests of stakeholders other than only shareholders into consideration beyond the prescriptions of legislation and custom. Consequently, CSR is essentially about the role of values in business.

The role of values

Agle *et al.* (1999) distinguish between two types of values as the basis of managers' actions including self-regarding values and other-regarding values. The beginning point of the Anglo-Saxon model is that the pursuit of self-interest in the form of shareholder value creation is conducive to economic growth. This model is based on managers' self-regarding values; managers' status and compensation depend upon the degree to which they create shareholder value. They perceive the company's other stakeholder groups solely as instruments to create more shareholder value. In contrast, corporate social responsibility is based on managers' other-regarding values that stimulate them to take the interests of groups of people who are affected by the company's behaviour and activities into consideration. On the basis of such values, managers consider the realisation of the interests of stakeholder groups other than shareholders as an aim in itself. This is evidenced by management action on behalf of stakeholders that proceeds beyond what is prescribed by law, custom, or contract.

Corporate Social Responsibility

CSR is often associated with external stakeholder groups. In Western Europe, particularly, it was assumed that employees' interests were sufficiently protected by government legislation and regulation and by the collective bargaining agreements concluded by strong unions. Additionally, in the so-called Rhineland model, the company culture in family businesses of old were characterised by its attention for other stakeholders' interests besides shareholders. However, the deregulation of the labour market in the wake of the globalisation process resulted in a gradual, but continuous, reduction of governmental employment protection. Simultaneously, union density decreased almost everywhere in the western world, resulting in the erosion of union power. As a consequence of organised labour's loss in power, employment terms and employment security were increasingly pressured. Furthermore, market liberalisation and deregulation resulted in intensifying competition between companies which also induced increasing job stress for employees. These developments necessitated greater attention to employees' positions as internal stakeholder group (Pfeffer, 2010).

The position of employees continues to be rather underexposed in CSR research. Traditionally, the position of employees is the subject of the Strategic HRM and Industrial Relations perspectives. In this aspect, it is common to explain companies' systems of employment relations and the quality of the resulting employment terms from employees' relative bargaining power. The economic aspects of employment terms, i.e., time and money, are of special concern. Only recently, both Strategic HRM and Industrial Relations have begun paying attention to the moral aspects of employment relations, see e.g. Paauwe (2004) and Heery *et al.* (2008). The stakeholder perspective, however, enables easy integration of the position of employees in CSR. After all, companies' responsibility towards society can only be made specific in their relations with groups who affect companies' activities and behaviour and/or are affected by companies' activities and behaviour. This thesis addresses the question under which conditions multinational SMEs proceed to CSR oriented at their employees both at home and abroad. It is argued that the owner-manager's value system plays a significant role in this. Employee-oriented CSR is defined as an employee relations arrangement in which employees not only form a means to increase financial firm performance – because their KSAs greatly affect firm performance – but equally as people whose needs and interests must be pursued as an aim in itself because the quality of their existence is affected by the company's behaviour and activities.

Nonetheless, management will only address workers' interest if employees are a salient stakeholder group. According to Mitchell *et al.* (1997), stakeholders' salience to management depends on their legitimacy, power, and urgency. Driscoll and Starik (2004) add proximity as a fourth attribute. My contribution to the stakeholder literature consists of the adaptation of this model in the sense that legitimacy and power directly determine employee salience and that urgency and proximity affect the degree of perceived legitimacy and power. Employees' legitimacy as stakeholders is associated with management's other-regarding values and their power with management's self-regarding values. Employee power stems from three sources: their usefulness as determined by their KSAs; union power; and the strictness of labour legislation and regulation.

Types of employee relations arrangements

Based on owner-managers' value systems, I have developed two schemes which facilitate the classification of employee relations arrangements from the employers' perceptions and the employees' view (see Figures S.3 and S.4). Owner-managers determine employee salience on the basis of the other-regarding values and the employee power (reflecting self-regarding values) dimensions. Employees perceive management's other-regarding values as reflected in the firm's organisational climate and their power in the quality of the HR practices in use. Then, four types of employee relations arrangements can be distinguished:

1. the low/wage system (low other-regarding values and low employee power),
2. paternalism (high other-regarding values and low employee power),
3. HRM-based arrangements (low other-regarding values and high employee power) and
4. employee-oriented CSR (high other-regarding values and high employee power).

Theoretical perspectives

Three theoretical perspectives are of interest to this research. The question of how other-regarding values affect stakeholders' legitimacy is addressed by means of the stakeholder perspective. Strategic HRM has been employed for the analysis of the company-specific employee power resulting from employees' KSAs. Institutionalism, finally, is of importance for two reasons. First, for SMEs, the national industrial relations as determined by union power and government regulation of the labour market are components of their national business system that they are unable to influence. Multinational SMEs, by definition, are components of at least

two national business systems each exerting their individual influence on the firm’s employee relations arrangement. Additionally, the degree of proximity of employees in foreign subsidiaries is determined by the differences in cognitive and normative institutions between home and host countries.

Figure S.3 Employee relations arrangements based on combinations of owner-managers’ other-regarding values and employee power

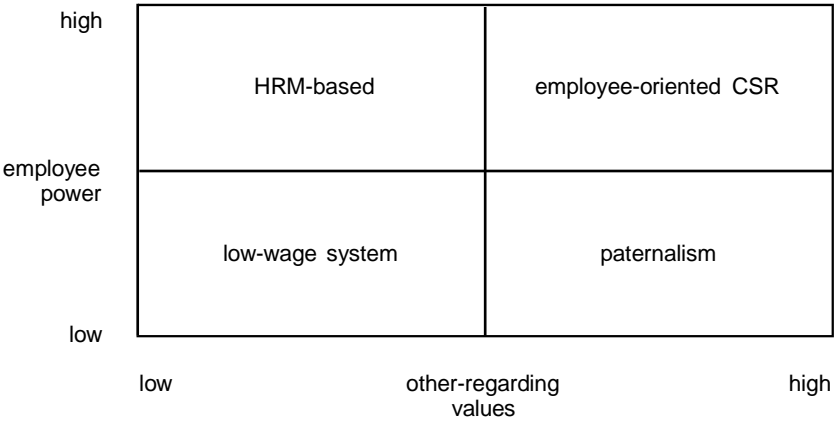
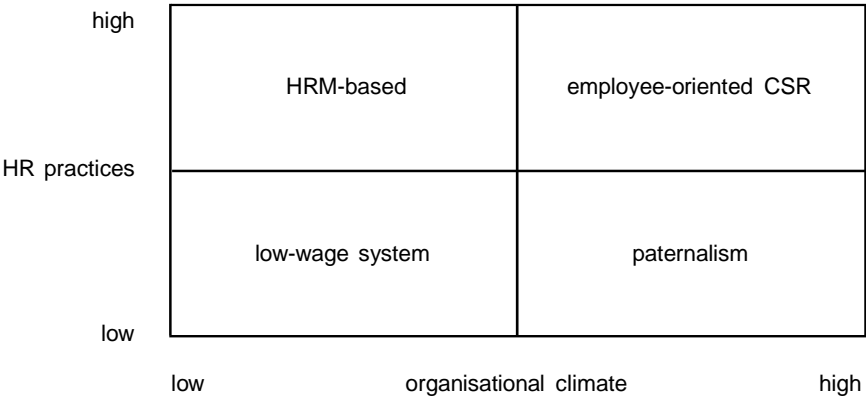


Figure S.4 Employee relations arrangements based on the level of employee appreciation of firms’ organisational climate and HR practices



Case study research

The research has been cast in the form of a case study among seven multinational SMEs in the manufacturing, services, and resources sectors in the north-eastern Netherlands with subsidiaries in Poland or Estonia. These countries have been selected due to the significant differences in cognitive and normative institutions with the Netherlands. Two case-study companies have discerned that the greatest portion of their activities are in their foreign subsidiaries. The case-study companies are not representative of the entire population of multinational SMEs. These SMEs are prosperous companies which makes scarcity of financial resources – generally considered as an important difference between large corporations, on the one hand, and SMEs on the other, see e.g. Storey (1994) and Tilley and Tonge (2003) – less of an issue than in the average SME. Furthermore, it is likely that only those companies participated that are of the opinion that they have sufficient personnel policies in place.

The research has been conducted among SMEs because the effect of the value system of top management personified by the owner-manager on the design and the implementation of the firm's employee relations arrangement is more easily traceable than in large corporations. Much more than the CEO in large corporations, the SME owner-manager occupies a pivotal position in the company which affords an opportunity to heavily impact all company processes. Additionally, research into SMEs is both academically and societally relevant because:

1. Research into SMEs is minimal relative to the sector's significance to national economies in terms of production and employment.
2. Results of academic research into large corporations is not simply applicable to SMEs because of the significant differences in important aspects such as financial power and specialist expertise.
3. SMEs experience a process of internationalisation in which foreign direct investment is increasingly important.

Interviews

I conducted interviews with the owner-managers as well as the subsidiary managers in order to establish both the type of employee relations arrangement – and, thus, the component of other-regarding values – and the intended outcomes for the employees as well as for the firms themselves. Moreover, interviews have been held with employees in the parent companies and the subsidiaries to ascertain to what extent their perception of the role of management's other-regarding values in the firm's employee relations arrangement, their judgment of the ar-

rangement's outcomes, and their commitment to the company corresponded to the owner-manager's view. As the interviewed employees had been selected by the owner-managers, and they were predominantly included in the white-collar category, a questionnaire was distributed among the entire workforce of the companies to determine to what extent the employee interviewees presented the opinion of the workforce in its entirety.

Employees as stakeholders

The reduction of employee rights and neglect of their interests as observed in the introduction did not pertain to the companies involved. All owner-managers indicated considering their employees as a very important, if not the most important, stakeholder group due to their legitimacy and power:

1. They did not exclusively look upon regard for employee interests as a means to achieve the company's objectives
2. But also as an aim in itself: employers are responsible for a qualitatively positive existence for their employees.

As far as legitimacy was concerned, the owner-managers indicated making no difference between their parent company's employees and their subsidiary's employees. They perceived employee power in foreign subsidiaries as lower than in the parent companies, in particular due to lack of union power and, to a lesser extent, because of less encompassing government protection. The power due to knowledge, skills, and abilities was determined as being dependent on the investment motive: power was more important for market and resources seekers than for efficiency seekers.

Employee relations arrangement

The owner-managers divided their employee relations arrangements into two parts including the organisational climate and the formal HR armamentarium. All of them regarded organisational climate as more important than formal HR practices in realising employees' needs and interests. This opinion may be inspired by the SME entrepreneurs' preference for informality to formality, see e.g. Storey (1994) and because of the fact that, in the Netherlands, it is quite difficult and costly to proceed beyond the prescriptions of collective bargaining agreements and legislation by means of HR instruments (Crane *et al.*, 2008).

The owner-managers strove for an organisational climate based on mutual trust to provide for employees' needs for transparency regarding the state of affairs in

the company, the exercise of voice, and an agreeable working atmosphere between management and personnel. They were under the impression that their employees had a similar preference for an employee-friendly organisational climate over more advanced, formal HR practices. The entrepreneurs combined these other-regarding values with self-regarding values by assuming a positive effect of the organisational climate on employees' commitment which, through a proactive work attitude, would result in higher productivity and lower costs. Based on their statements, one parent company's employee relations arrangement (Packing Co) and two subsidiaries' arrangements (Paint Co and Metal Co) could be categorised as employee-oriented CSR.

Transfer intent

Regarding possible transfer of their Dutch employee relations arrangements, the owner-managers believed the organisational climate to be most important; all the more because they considered lack of mutual trust and a proactive work attitude as the most significant obstacles for their Polish and Estonian subsidiaries' competitiveness. Turning transfer intent into the actual transfer turned out to be partly dependent on the investment motive, the ownership structure of the foreign subsidiary, and whether it concerned an existing company or a new company. The institutional distance with respect to cognitive and normative institutions between the Netherlands, on the one hand, and Poland and Estonia on the other proved to be so immense that institutional entrepreneurship was required to make transfer feasible.

Institutional entrepreneurship

Institutional entrepreneurship entails that the entrepreneur attempts to transform existing institutions and implements these changes. This is exactly what some of the entrepreneurs did. They wanted to replace the cognitive and normative institutions in their subsidiaries that were constraining the generation of mutual trust and a proactive work attitude by institutions based on the Dutch neo-corporatist model. To accomplish this, the importance of hierarchical status and the mistrust between management and shop floor had to be eliminated and be replaced by egalitarianism and trust. The entrepreneurs especially use power of meaning (Ferner *et al.*, 2012) to bring this about. They explain why hierarchical status and mistrust are counter-productive for the firm, join their staff on the job floor to demonstrate that they work as well, interact with employees on equal terms, leave employees free to structure their own job as much as possible, and reward those taking initiative. According to themselves, the owner-managers are successful in inciting the desired changes.

Perceived values

In all companies, the employees indicate that the employee relations arrangement is also based on the owner-managers' other-regarding values, though this applies to the parent companies' employees to a greater extent than to the subsidiaries' employees. However, the host country employees, depending upon the degree of owner-managers' physical presence, base their judgment on their perception of local management's other-regarding values as well. The different judgment of other-regarding values is also evidenced in the improved evaluation of the organisational climate by the parent companies' employees. This is related, in particular, to a less positive evaluation of voice by the subsidiaries' employees. Consequently, this research does not show that institutional entrepreneurship in the companies involved has been a success in this respect.

Transparency

Conspicuously, the employees of almost all establishments, whether the home country or abroad, evaluate their firms' transparency less positive than voice and, especially, the work atmosphere. Whereas the owner-managers consider the course of events in their companies as transparent and the communication as open, employees believe that, in this respect, there can be considerable improvement. In particular, they refer to the communication regarding companies' performance and about changes affecting their own work situation as being susceptible to improvement. Notwithstanding, the parent companies' employees judge the organisational climate to be better than the HR practices currently in use; in the foreign subsidiaries both appraisals are similar. This seemingly demonstrates that the employees just like the owner-managers believe that the organisational climate is more important than formal HR practices in order to realise their needs and interests.

However, it is indicated that, when comparing the correlations between employee outcomes and HR practices or organisational climate, employees deem the HR practices more significant than the organisational climate to address their needs and interests. The point is, however, that most of the HR practices that are employed are informal in nature and, thus, not transparent. It is not clear to employees to which amenities they are entitled to under what conditions since no rules have been dictated in regards to these issues. This pertains, to an even greater extent, for the host-country employees than for the home-country employees. They judge the outcomes of their firms' employee relations arrangements less positively than the employees in the parent companies. None of

the subsidiary employee relations arrangements was classified as employee-oriented CSR while the arrangements of three parent companies (Packing Co, Valve Co and Metal Co) were categorised as employee-oriented CSR by their employees.

Commitment

All owner-managers have been successful in generating employee commitment which makes it probable that the reported favourable effects of their employee relations arrangements regarding costs and productivity indeed occur. It is striking that the subsidiaries' employees indicate having a much greater degree of commitment than was expected in consideration of their judgment of their firm's employee relations arrangement and its outcomes. This appears to be unrelated to the institutional entrepreneurship exercised by the owner-managers since this finding also pertains to the subsidiaries where the owner-managers did not interfere in the design of the employee relations arrangement. It is quite possible that employees believe to be in a more prosperous position than in comparable domestic companies (Kohl & Platzer, 2003) despite their judgment being more negative than that of the parent companies' employees.

Employee categories

Apart from the differences in the evaluation of employee relations arrangements between home- and host-country employees, there are also significant differences between blue-collar and white collar employees. On average, blue-collar employees judge the employee relations arrangement, their outcomes of that arrangement, and their commitment to the company less positively than white collars. In particular, this is true for transparency and job discretion. Apparently, blue-collars see greater possibilities for job discretion than the owner-managers. The difference in evaluation between blue- and white collars may also be related to lower proximity to the owner-managers compared to white-collars. Blue-collar employees have a relatively lower education and interact less frequently with the owner-managers than the white-collar employees. This creates difficulty for the owner-managers to imagine themselves in blue-collar workers' position.

Conclusions

We can establish that, whereas for SME entrepreneurs informality is a strength with respect to their firms' organisational climate, it is an essential weakness in the design of their HR practices. This is probably the most significant reason why the employee relations arrangements of only a few establishments have been

typified as employee-oriented CSR by the workforce. Though employers assert taking employees' interests into consideration, this is often insufficiently addressed according to the employees. Consequently, the trick for SMEs is to combine the informality in the mutual relations leading to a pleasant work atmosphere with transparently designed formal HR practices. Owner-managers may procure this by entering a dialogue based on other-regarding values with their employees at home and abroad to ascertain in what way they can best address their employees' needs and interests. Overall, it can be concluded that the conceptual model appears to adequately describe the introduction and transfer of employee-oriented CSR despite the fact that, according to employees, only three companies are typified by this type of employee relations arrangements. First, the model enables clearly discriminating between employee-oriented CSR and employee relations arrangements based on strategic HRM; employee-oriented CSR is based on the owner-manager's other-regarding values moderated by employee power, while HRM-based systems are founded on employee power moderated by other-regarding values.

Second, the model enables the researcher to analyse the host country's institutional environment's influence regarding transfer intent and transfer results and, thus, to emphasise the necessity of institutional entrepreneurship. The host country's institutional environment negatively affects the transfer of the preferred practices for the investigated companies. Moreover, the owner-managers appear to have exercised insufficient institutional entrepreneurship to compensate for this negative influence.

Third, the model enables analysis of the effect of employee-oriented CSR on employee performance by means of the effect on their commitment. To be sure, soft HRM and paternalism have a similar effect on employee performance but to a lesser degree and less encompassing.

Finally, though application of employee-oriented CSR – recognised as such by employees – exerts a strong positive influence on both the employee and firm outcomes, an important caveat is that these types of employee relations arrangements are still quite rare. On the basis of employee assessments, three establishments of the investigated companies qualified and in only one case was this assessment shared by the owner-manager. Combined with its inherent dependence upon the personal value system of the owner-manager/subsidiary manager, this warrants the conclusion that employee power must be supported by union power and government regulation if employee needs and interests are to be effectively protected

overall. Still, in consideration of the positive effects of employee-oriented CSR, future research is required to discover effective ways to promote these types of employee relations arrangements.